

# FINANCIAL TIMES

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Grim lessons of the tragedy in India, Page 16

Asia	Sch. 18	Indonesia	Rp 2500	Portugal	Esc 200
Australia	A\$ 1.00	Italy	L. 1200	S. Arabia	Ri 6.00
Canada	C\$ 1.00	Japan	¥ 100	Switzerland	Sfr 2.00
Denmark	Dkr 7.25	Lebanon	L.L. 1500	Taiwan	Nt 80.00
France	FFr 6.50	Luxembourg	Lfr 40	Thailand	Bt 50.00
Germany	DM 3.00	Malaysia	Mal 4.25	USA	\$ 1.00
Greece	Dr 200	Mexico	Ps 200		
Hong Kong	Hk\$ 1.00	Morocco	Mh 10.00		
India	Rs 15	Norway	Nkr 4.75		
		Philippines	Ps 20		

## NEWS SUMMARY

### Hostages killed in Tehran hijacking

Hijackers of a Kuwaiti Airbus killed at least four hostages at Tehran airport. The official Iranian news agency IRNA said that one passenger, led on to the gangway stairs outside the aircraft, identified himself as the U.S. consul in Karachi, before hijackers shot him dead. The State Department in Washington said later that there was a strong possibility that at least one U.S. official had been killed during the hijack, but that the consul was safe in Karachi. The hijacking is believed to be in revenge for Kuwait's jailing of 13 men involved in embassy bombings last November. One Lebanese and two Iraqis were sentenced to death but the executions have not apparently been carried out.

### GENERAL Reagan in budget cut initiative

President Reagan has seized the political initiative by demanding from his Cabinet draconian cuts in federal spending to try to reduce the budget deficit from \$224bn to \$100bn by 1988. Fierce opposition is expected from Congress and from interest groups that can see the flow of federal dollars slowing and in some cases drying up. Page 18

### Marcos to visit U.S.

Philippine President Ferdinand Marcos plans to attend the inauguration of President Ronald Reagan next month and seek medical treatment in the U.S., his aides said.

### Colombo curfew

Sri Lanka's Government imposed a curfew in the capital, Colombo, and ordered troops to shoot troublemakers on sight in the North-West. Residents have accused soldiers of killing at least 83 unarmed civilians after a Tamil attack on an army convoy.

### SA bishops accuse

Three South African Roman Catholic archbishops and a bishop accused South African police of indiscriminate shooting, violence and rape to quell riots in black townships, which about 170 people have died this year.

### UK snubs sea treaty

Britain announced that it would not sign the 1982 United Nations Law of the Sea Convention but would not oppose signature by the European Community.

### Red Brigades jailed

A Milan court sentenced 19 members of the Red Brigades guerrilla organisation to prison for life for murder and 80 others to terms of up to 30 years for other crimes.

### Iceland bases

Iceland, a Nato member, plans to construct two new radar stations to counter a Soviet naval build-up in the Arctic.

### Corsica peace march

Tens of thousands of people marched through the southern Corsican city of Ajaccio to protest at violence and extremism on the island.

### Spain bus deaths

At least four people were killed when a bus plunged off a coastal road into the sea near the Spanish Basque town of Zumaya.

### Medicine men meet

Hundreds of natural healers from 35 countries began a four-day meeting in Madrid on ways of legitimising their centuries-old practices in the eyes of sceptical government bodies and the medical profession.

### BUSINESS Bluebell to pull out of Europe

BLUEBELL, the U.S. Wrangler jeans group, is to close its European operations with the loss of 900 jobs. The decision will affect manufacturing facilities in Belgium and sales operations in France and the Netherlands. It plans to license the Wrangler brand name in Europe.

### DOLLAR DM ground in London

Falling to DM 3.0625 (DM 3.0785), SwFr 2.5245 (SwFr 2.545), FF 6.2825 (FF 6.42) and Y246.55 (Y246.75). On Bank of England figures, the dollar's exchange-rate index improved slightly to 142.5 from 142.4. Page 37

### STERLING weaker in London

Falling 15 points against the dollar to \$1.2085. It was also lower at DM 3.69 (DM 3.72), SwFr 3.045 (SwFr 3.08), FF 11.3 (FF 11.39) and Y297.5 (Y298.25). The pound's exchange-rate index was unchanged at 74.7. Page 37

### WALL STREET: By 3pm the Dow Jones industrial average was 0.90 down at 1,170.84. Section III

LONDON equities were dull although the Nikkei Dow market average 16.85 higher to 11,539.84. Section III

### GOLD fell 25 cents on the London bullion market to finish at \$330.50. It was also lower in Zurich at \$329.85. Page 36

KRAUSS MAFFEL, the West German defence contractor, said its reputation was being damaged by speculation that its parent company, Friedrich Flick, was trying to sell it because of financial difficulties. Page 20

### LAZARD FRERES, the investment bank, may take a 20 per cent stake in Mediobanca, the Milan-based merchant bank controlled by the state-owned IRI group, in a share deal worth \$96m. Page 20

HITACHI, the Japanese electronics group, lifted its first half net earnings by 27 per cent to ¥101bn (\$407.8m). Page 20

ASEA, the large Swedish electrical engineering and electronics group, is under investigation by U.S. trade authorities for suspected circumvention of American high-technology export restrictions. The far-reaching investigation might lead to significant fines or even the denial of export licenses for key electronic components needed for many Asea products.

IRWIN JACOBS, the Minneapolis investor, confirmed that he had purchased a 1.8m block of ITT shares. Wall Street Report, Page 27

## India may seek to speed claims as gas toll rises

BY K. K. SHARMA IN NEW DELHI AND TERRY DODSWORTH AND PAUL TAYLOR IN NEW YORK

THE DEATH toll in India's poison gas tragedy rose to more than 2,000 yesterday amid expectations that the Indian authorities would seek a negotiated settlement of compensation claims against Union Carbide, majority owner of the plant to avoid long drawn-out legal action. The growing dimensions of the tragedy were highlighted not only by the death toll - higher than any previous industrial disaster - but also by reports from doctors in the stricken town of Bhopal that thousands of their patients may have been afflicted by paralysis, a form of partial paralysis.

Doctors fear serious neurological complications as part of the after-effects of inhaling the deadly methyl isocyanate gas that leaked into the atmosphere in a 40-square-mile area of Bhopal. They said the cases of partial paralysis were similar to those caused by phosgene, a nerve gas. As a result, Union Carbide might face the prospect of huge damage and compensation claims as nearly 25 per cent of Bhopal's 800,000 population is thought to have inhaled the gas and be at risk from some kind of disability. The Madhya Pradesh state government was reported by the Press Trust of India to have filed a criminal negligence case against Union Carbide after taking legal advice. Nevertheless, officials seem to hope that the U.S. company will agree to a negotiated settlement. Mr Stuart Speiser, a leading New York lawyer in product-liability cases, said yesterday that he thought negotiated compensation was the most likely outcome. Mr Speiser said he had rejected approaches from India asking him to represent families of possible claimants. The consensus among New York lawyers was that successful foreign claims against U.S. companies must involve products conceived, manufactured and marketed in the U.S. Lawyers say it would be difficult to establish Union Carbide's responsibility on such grounds. The company's woes mounted yesterday when its top executives were refused access to the plant in Bhopal. A member of a technical team that arrived in India yesterday, led by Mr Warren Anderson, chairman and chief executive, was turned away by police. According to a Union Carbide spokesman, Mr Anderson himself was refused Indian Government permission to visit the factory. Union Carbide said yesterday that no reason for the Indian decision was given. Company officials said Mr Anderson flew to India to begin wide-ranging talks with the Government about the disaster and its implications in an attempt to improve relations.

## Ministers block EEC anti-pollution proposals

BY PAUL CHEESERIGHT IN BRUSSELS

THE EUROPEAN Commission's campaign against acid rain was checked yesterday when EEC environment ministers threw out proposals for much stricter emission standards at large combustion plants such as power stations. The proposals were the main plank in the Commission's anti-pollution programme. They were closely modelled on West German legislation, and provided for a 60 per cent cut in sulphur dioxide emissions and a 40 per cent reduction in oxides of nitrogen and dust emissions by 1995, with the base at 1980.

Ministers also had difficulty in deciding how they should implement the June decision to make the sale of lead-free petrol in the EEC compulsory from 1988 and optional from 1990. They confirmed the dates and settled on 95 octane as the petrol grade. They could not decide, however, how to ensure that supplies of lead-free and leaded petrol would be available to motorists during the transition period. The difficulty is acute because of the West German determination to bring in lead-free petrol more rapidly than other Community countries. The wider question of setting a timetable for bringing EEC car exhaust emission standards to the U.S. and Japanese level remains unsettled. West Germany, which intends to introduce them unilaterally from 1988-89 by making the fitment of catalytic converters to cars compulsory, was still isolated. Late yesterday evening, ministers were trying to decide on the form of a declaration that would accept the principle of stricter emissions and define the fashion in which they would move to a joint decision. France, Italy and the UK do not want to be tied to a timetable that would make the use of catalytic converters compulsory since they are seen as obsolete, costly and inefficient in small cars. The three countries are much more sympathetic than West Germany to the Commission suggestion that U.S. and Japanese standards should be achieved by 1995.

## Phillips wins court order to restrain Pickens's share offer

BY WILLIAM HALL IN NEW YORK

THE BATTLE for Phillips Petroleum, the sixth biggest U.S. oil company, moved into top gear yesterday. Phillips won a temporary restraining order blocking Mr T. Boone Pickens's tender offer for at least 15m of Phillips' 153m shares and Mr Pickens's disclosed plans to dismiss the Phillips board. Phillips won the restraining order in an Oklahoma district court after arguing that Mr Pickens's tender offer would breach an agreement between Mesa Petroleum, Mr Pickens's master company, and General American Oil, which Phillips rescued from a Mesa takeover. According to the agreement, Mesa was precluded for a five-year period starting on January 6 1983, from buying any shares of Phillips Petroleum. The court will hear Phillips's request for a temporary injunction barring the proposed tender offer on next Friday. Earlier yesterday in a filing with the U.S. Securities and Exchange Commission (SEC) Mesa said it was going to seek Phillips's shareholders' approval to oust the existing board and elect four of its own nominees. Mesa also said it planned to make changes in the company's by-laws. Mesa also disclosed that Texas Commerce Bank and Mellon Bank were leading a group of banks providing it with a \$1.1bn line of credit to support its share bid. Aside from several U.S. banks, the syndicate includes Bank of Scotland, Swiss Bank Corporation and Societe Generale. Phillips shares rose another 3% to \$33 in heavy trading yesterday morning as Wall Street analysts speculated on the strengths and weaknesses of the two sides. Phillips, which has retained Morgan Stanley, the blue-chip investment bank, is regarded as vulnerable to a corporate predator such as Mr Pickens. On the other hand, Wall Street

## UK oil prices to be linked to spot market

BY IAN HARGREAVES AND DOMINIC LAWSON IN LONDON

BRITAIN yesterday signalled its departure from a system of setting North Sea crude-oil prices through long-term contracts in favour of a more flexible approach linked to spot-market prices. Mr Ian Goskirk, chief executive of the British National Oil Corporation, told the House of Commons Energy Committee that BNOC, having lost half its contract customers in recent weeks, had to find a way of making its prices conform more with market realities. "Changes will have to be made. There is very little doubt about that. But exactly what they will be and how they will emerge, I could not say," he said. He added, however, that two crucial changes in the system would be "contract period and the extent to which spot prices are taken into account." At present, BNOC sets prices quarterly, but is under pressure to switch to shorter periods. It was clear from the oil market yesterday, however, that BNOC had already started to dispose of very large quantities of oil for January and February delivery at spot prices. Traders said that BNOC had sold five to seven cargoes - 2.5m to 3m barrels of oil - at prices between \$27.50 to \$27.80 a barrel, well below the official price of \$28.85. That is seen in the market as recognition by BNOC that its quarterly contract pricing system has, in effect, already been abandoned. BNOC's remaining contract customers are understood to have told that although they will not refuse January cargoes, they expect the price to be spot-related. That is seen in the market as a further indication that BNOC's quarterly contract price system is crumbling, as the corporation is forced to sell more and more of its oil at spot, rather than contract prices. BNOC's remaining contract customers are understood to have told that although they will not refuse January cargoes, they expect the price to be spot-related. BNOC officials were being questioned yesterday by the Commons committee about the £43m subsidy recently announced by the Government to cover the corporation's trading losses this year. The losses are a result of BNOC's buying oil at higher contract prices and having to sell it for less on the spot market. Mr Goskirk admitted that in July, after consultations with the Gov-

Continued on Page 18

Saudi give petro pledge, Page 4

## Plan for CDs hits French bond market

BY PAUL BETTS IN PARIS

FRENCH bond prices fell in heavy trading yesterday after the Government's decision to allow banks to issue certificates of deposit (CDs) for the first time. The decision to introduce CDs reflects the Government's efforts to modernise French financial and money markets. The Government, however, clearly miscalculated the market's reaction to the announcement on Wednesday night by M Pierre Berégovoy, the Finance and Economy Minister, to allow trading in CDs next year. Trading in the bond market was delayed yesterday because of a surge of sell orders. In the general confusion of the market, traders were unable to give precise figures for the huge trading volume yesterday. They said volume soared to between FFr 15bn (\$1.6bn) and FFr 50bn (\$5.3bn) yesterday compared to a daily trading average of between FFr 2bn and FFr 3bn. After heavy losses in the early part of the day, bond prices fell by an average of around 2 per cent by the end of the session as a result of heavy intervention to stabilise the market by the Caisse des Dépôts, the state financial institution, which traditionally acts as the guardian of the market. Traders said that the Government had made a mistake not to give the market advance notice of its CD announcement. They also criticised the lack of precise technical details on the new short-term instruments. In an effort to calm the markets, the Finance Ministry last night said the introduction of CDs would be done in close consultation with the market to ensure their smooth and gradual integration into the financial system. The introduction of CDs is designed to give large French enterprises an additional money-market instrument widely used in the U.S. and the UK. The monetary authorities also believe the introduction of CDs will help to integrate more the French financial market with the money market. The bourse was worried, however, that the new CDs would drain funds away from Treasury Bill mutual funds and the long bond market. Continued on Page 18

## Chrysler aims to buy back shares

BY WILLIAM HALL IN NEW YORK

CHRYSLER, the third largest U.S. car company, illustrated its rapid return to financial health yesterday by announcing plans to spend as much as \$700m on repurchasing up to a fifth of its shares. The car maker, whose earnings have more than tripled to \$1,770m in the first nine months of 1984, said yesterday that its board had approved the purchase of up to 55m of the company's common stock. It intends to complete the purchases over the next two years if the shares are available at prices it considers attractive. Chrysler shares, which at the depths of its financial difficulties in 1981 had dropped to nearly \$3, rose by 51% to \$28 1/2 in heavy trading yesterday. Several big U.S. companies have been taking advantage of the recent weakness on Wall Street to repurchase their shares. However, Chrysler's move is more than an opportunistic investment and is seen by Wall Street as a sure sign that the company's financial affairs are once again in order. Chrysler said yesterday that it believed its stock was undervalued given its future prospects and operating plans. The move would go some way towards reducing the dilution that resulted from the company's earlier financial restructuring, which occurred while it was battling for survival. The company has issued about 57m shares in the last four years, principally as contributions to its employee stock ownership programme and as a result of its 1983 recapitalisation plan. It feels it is now prudent to reduce the number of outstanding common shares, which currently total 124m. Chrysler, which came close to filing for bankruptcy five years ago before being bailed out by the U.S. Government, has improved its financial situation considerably over the last 12 months, at the end of September it had cash and marketable securities of \$1.6bn, compared with \$550m a year ago. Stock markets, Section III

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# A NEW INTERNATIONAL NAME. THE SAME EXPERTISE WORLDWIDE.

On January 1st, 1985 a new name goes up over the door of many bank buildings throughout Africa, Asia and the Middle East. On that day, The Standard Bank and The Chartered Bank formally adopt the name of their parent group - Standard Chartered. The new name over the door simply underlines the fact that Standard Chartered gives you immediate access to one of the largest integrated branch networks in the world - over 2,000 branches, in more than 60 countries. And it's intended to serve as a reminder that dealing with Standard Chartered offers international customers some very tangible benefits - including faster and more efficient cash transmission, more competitive currency dealing on a 24-hour-a-day basis, and a knowledge of world markets, contacts and opportunities based on nearly 130 years of specialisation in international trade. We can assure you that one thing won't change. The service. And if you already deal with Standard Chartered you'll know just what that assurance can mean, in helping you to do overseas business with fewer problems and higher profits. If, on the other hand, you haven't yet discovered the Standard Chartered difference, there'll never be a better time to do so than now. Because we know that having a new name is not enough, unless we earn one as well.

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EUROPEAN NEWS

UK may be ordered to repay EEC dairy subsidies

BY IVO DAWNAY IN BRUSSELS

THE UK may be ordered to repay about Ecu 45m (£25m) to the European Community for alleged irregularities in its milk pricing policy, according to unofficial reports. The repayments are being sought by Sig Carlo Facini, the EEC's financial controller for the marketing year 1980-81 and further claims are likely to be made for subsequent years. On Wednesday, however, Commissioners discussing the year's accounts decided to pass the final decision to the new Commission, taking office next month. The issue first made international headlines earlier this year when the controller called for Ecu 775m—a sum almost exactly equivalent to the UK's £475m budget repayment—for alleged infractions committed in an earlier year. This was later ruled out due to legal technicalities, but the UK is understood to be much more vulnerable to the claim for subsequent dairy production. Throughout the summer British diplomats have worked

frantically behind the scenes both to have the claim dropped and to seek similar irregularities by other member states should it be raised again. A British clampdown on public discussion of the issue has indicated the seriousness with which the UK is taking the claim. And there was clear annoyance among diplomats when Sir Stephen Roberts, chairman of the Milk Marketing Board (MMB), chose last month to visit Brussels. The substantial reduction in the financial controller's claim means that this time he has made an assessment of the financial advantage the UK is alleged to have gained through operating a two-tier pricing system for milk. It also makes prosecution of the charge more feasible. The complaint, which is also the subject of two Commission and one Irish court cases, alleges that different rates paid by the MMB for milk had the effect of excluding imports from other member states against EEC rules.

Commission divides up the portfolios

BY QUENTIN PEEL IN BRUSSELS

THE TRADITIONAL "night of the long knives" in the European Commission, when new members fight for the best jobs on the eve of taking office, should be transformed into two harmonious "days of the long spoons" when 13 of the 14 get together today at an old abbey outside Paris. The two-day meeting at the Abbaye de Royaumont has been convened by Jacques Delors, the former French Finance Minister and President-elect of the new Commission, precisely in order to sort out the portfolios well in advance of taking office in January. The indications are that most of the negotiations have already been done. It is reliably reported that the key industrial and internal market portfolios will go to West German and British nominees; external relations will be shared between Belgium and France; and Italy will get development, Agriculture will go to the Netherlands, while Denmark takes the economic portfolio. The likely line-up means that Britain should get portfolios in two of the areas closest to Mrs Thatcher's heart: pushing ahead with development of a genuine Common Market in goods and services, and simultaneously agreeing on a common transport policy. The division of the industrial area between Britain and West Germany, means that these portfolios will be left entirely with those who are essentially free marketeers, as opposed to the more interventionist tradition of France, and indeed of Viscount Etienne Davignon the previous Industry Commissioner. The toughest job for M Delors has been to accommodate his former colleague M Claude Cheysson, the French Foreign Minister who was finally confirmed as the second French nominee by President Mitterrand at this week's Dublin summit.

Output of steel expected to rise 8% this year

BY PAUL CHEESERIGHT IN BRUSSELS

EUROPEAN Community steel production by the end of this year will be 8 per cent higher than in 1983, the Commission has calculated in its latest analysis of the market. Output for 1984 is put at 189m tonnes, compared with 174.5m tonnes in 1983. The increased tonnage shows how the steel industry has responded to the greater stability of the EEC economy, which this year will grow at a real rate of 2.5 per cent slightly higher than first estimated. But steel production in the first quarter of 1984 is expected to slow slightly compared with the last quarter of this year, with likely output calculated at 25.5m tonnes against just over 25m tonnes. The inventory of stockholders remains high, however, and on the assumption that stocks are run down by 0.5m tonnes, the Commission expects consumption in the 1985 first quarter to be 25.3m tonnes. The improvement in the state of the industry, implied by these figures, has been taking place against a background of a reorganisation and abutting down of production capacity. The Commission noted that in the first 10 months of this year the workforce in the EEC industry had shrunk by 29,300, or 1,000 more jobs than in the same period of 1983. Over the last year over two-thirds of the job losses have been in Italy.

Shopping hours row in Austria

By Patrick Blum in Vienna

AN EXTRAORDINARY dispute has brought the church, members of the Government, political parties and the trade unions at loggerheads over shopping hours in Austria. Reflecting the high stakes involved, M Laurent Fabius, the Prime Minister, yesterday took over direct responsibility for the issue—shunting aside the unfortunate M Georges Lemoine, secretary of state for the overseas territories, who failed to prevent the Government warring off the explosion that has now hit them. Television and newspaper coverage from New Caledonia is brushing to the Government because of pictures of half-clad Melanesian separatists holding at bay French riot police while angry French settlers pour their fury at the Government for their failure to protect them. Echoes of the Algerian war are never far away, if only because some of the French settlers who left Algeria at the end of independence settled in New Caledonia. One was quoted yesterday by the AFP correspondent covering Wednesday's murder of eight Melanesians including three of the separatist group's leaders: M Jean-Michel Tjibaou—a at Hienghène in the north of the island. He said: "We will hold on whatever the cost. I have thrown my lot in with New Caledonia. I have a house here and I am ashamed of being French and above all ashamed of being a former soldier. I don't fear reprisals (after Hieoghene), I

Commission wants more flexibility in rules

BY QUENTIN PEEL IN BRUSSELS

Dr Steger wants more flexibility in the rules which strictly control opening times on Saturdays and in the evenings. The left and trade union wing of the Socialist Party are deeply opposed to any changes in the rules and on this occasion they have been joined by the Church. Some provincial governments and local traders would like the shops to stay open for one simple reason: they do not want to lose a day's trading and see large numbers of shoppers going over the border from Carinthia in Italy or from Salzburg to West Germany to do their Christmas shopping. Dr Wilfried Haslauer, a member of the conservative People's Party and Governor of Salzburg, still resists Herr Dallinger's order that shops must be kept closed. The Minister of Higher Education has two weeks in which to veto the choice of Professor Grzegorz Bialkowski, a physicist overwhelmingly elected rector last Wednesday. On Wednesday, the Senate at Warsaw University also passed a resolution arguing that changes in the higher education law introduced in 1982—which granted the universities a significant degree of autonomy—were premature. The same officials believe that government acceptance of Professor Bialkowski would mean that student response to changes in the law would be muted.

Student demos fear in Poland

By Christopher Bobinski in Warsaw

THE POLISH Government's failure to accept a new rector elected by students and staff at Warsaw University this week, combined with general moves to reduce university autonomy, might lead to student demonstrations at the country's largest university, according to administrative officials there. The Minister of Higher Education has two weeks in which to veto the choice of Professor Grzegorz Bialkowski, a physicist overwhelmingly elected rector last Wednesday. On Wednesday, the Senate at Warsaw University also passed a resolution arguing that changes in the higher education law introduced in 1982—which granted the universities a significant degree of autonomy—were premature. The same officials believe that government acceptance of Professor Bialkowski would mean that student response to changes in the law would be muted.

Paris grapples with New Caledonia imbroglio

BY DAVID HOUSEGO IN PARIS

NEW CALEDONIA is now becoming a political test for the French Socialist Government in much the same way as the Falklands was for Mrs Thatcher in Britain. Reflecting the high stakes involved, M Laurent Fabius, the Prime Minister, yesterday took over direct responsibility for the issue—shunting aside the unfortunate M Georges Lemoine, secretary of state for the overseas territories, who failed to prevent the Government warring off the explosion that has now hit them. Television and newspaper coverage from New Caledonia is brushing to the Government because of pictures of half-clad Melanesian separatists holding at bay French riot police while angry French settlers pour their fury at the Government for their failure to protect them. Echoes of the Algerian war are never far away, if only because some of the French settlers who left Algeria at the end of independence settled in New Caledonia. One was quoted yesterday by the AFP correspondent covering Wednesday's murder of eight Melanesians including three of the separatist group's leaders: M Jean-Michel Tjibaou—a at Hienghène in the north of the island. He said: "We will hold on whatever the cost. I have thrown my lot in with New Caledonia. I have a house here and I am ashamed of being French and above all ashamed of being a former soldier. I don't fear reprisals (after Hieoghene), I

Row erupts over electronics aid

BY PAUL BETTS IN PARIS

CONTROVERSY has broken out over the French Socialist Government's electronics aid program following the publication of a report by the leading French Right-wing opposition party, the RPR, describing it as one of the Government's biggest setbacks. Mme Edith Cresson, the Industry and Foreign Trade Minister, yesterday called the report prepared by M Michel Noir, an RPR deputy, "an intolerable manipulation of the facts." The report claimed that the Government was not giving the electronics industry sufficient financial aid and that its strategic decisions including the restructuring of the telephone equipment industry had proved to be failures. It suggested that the chairman of the nationalised electronics industries acted as government pawns. M Noir also criticised a recent agreement between the French nationalised Thomson group and IBM in the semiconductor sector and the decision to block the sale of Thomson's medical equipment subsidiary CGR to a subsidiary of Johnson and Johnson of the U.S. Mme Cresson argued yesterday that the sector was finally bucking its declining trend. From Ffr 3.2bn (£280m) in 1978, losses by the French electronics industry swelled to Ffr 14.7bn in 1982. In 1983, they declined to Ffr 8.5bn and are expected to be less than Ffr 6bn this year. The Government is supporting the industry with some Ffr 11bn in aid this year which is likely to rise to about Ffr 12bn next year. But Mme Cresson acknowledged that the industry had not achieved the employment targets originally hoped for by the Government. However, she claimed there had not been a decline in the overall employment. Difficulties in restructuring both the French telecommunications and electronics industries have led to tensions with the trade unions because of redundancies. The sector has been hit by the overall decline in large French export contracts which fell by 40 per cent between 1982 and 1983 and again by another 40 per cent between 1983 and 1984, according to Industry Ministry officials. Mme Cresson described the RPR report as "a blow below the belt against a vital sector of the economy."

Hussein confirms rejection of Camp David

By Richard Johns

KING HUSSEIN of Jordan yesterday confirmed Jordan's rejection of the Camp David accords agreed between Egypt and Israel in 1978 as a framework for any resolution to the Palestinian problem. Addressing the Royal United Services Institute for Defence Studies in London yesterday he made it clear that his country's attitude to the U.S.-sponsored formula has not been affected in any way by Jordan's full-scale reconciliation with Egypt. King Hussein dismissed President Reagan's peace plan as "moribund" and instead rejected his call for an international conference bringing together all the parties to the conflict and the five permanent members of the UN Security Council. King Hussein made no comment about the inconclusive outcome of the Palestine National Council which met in Amman last week. But he stressed that "constructive discussions" with the PLO were taking place on "the basic requirements for peace-making including the establishment of a confederal union between Jordan, the West Bank and the Gaza Strip." Members of his entourage, meanwhile, were at pains to dismiss any idea that he might meet with Mr Yitzhak Rabin, the Israeli Defence Minister, who is also in London on an essentially private visit at the invitation of the Joint Israeli Appeal. Mr Rabin yesterday called upon Mr Michael Heseltine, Defence Secretary and Sir Geoffrey Howe, Foreign Secretary. King Hussein is expected to see Mrs Margaret Thatcher—his first official private visits to the UK three times this year. It was assumed that Mr Rabin expressed Israel's objections to the European summit conference for the PLO to be associated with the Middle East peace negotiations. Mr Shimon Peres, Israeli Prime Minister, had lunch yesterday with President Mitterrand on the second day of his official visit to France. The French leader was expected to brief Mr Peres on his recent talks with President Hafiz Assad of Syria. Top-level reports from Cairo: Dr Ezzat Abdel Meguid, Egypt's Foreign Minister, yesterday gave an expectedly warm endorsement to the efforts of Mr Peres, the Israeli Prime Minister, to improve the climate for peace in the Middle East. Dr Meguid said there were encouraging signs from the Israelis. "We think Mr Peres is trying to move the peace process," he said. But he was sharply critical at a thirty press conference of Mr Yitzhak Shamir, the Deputy Prime Minister of Israel and Foreign Minister, who said this week that Jordan and Egypt were faced with a clear choice between pursuing peace and allying themselves to the PLO.

Dutch set deadline on cruise decision

FINANCIAL TIMES REPORTER

THE NETHERLANDS will decide whether to deploy its share of U.S. cruise missiles depending on the number of Soviet SS-20 missiles operational on November 1 1985. Mr Job de Ruiter, Dutch Defence Minister, said in Brussels. Soviet missiles that have been deployed but are temporarily out on their base on November 1 next year will also be counted, Mr de Ruiter said. He was the first Dutch Government spokesman to comment on the report by the U.S. Defence Secretary, Mr Caspar Weinberger, that the Soviet Union has stationed 387 SS-20 missiles in Eastern Europe. U.S. claims exaggerate the chance that the Netherlands will station cruise and Pershing 2 missiles, but the ultimate decision still depends on the November 1 deadline. It is by that date the Soviets have deployed more than 378 SS-20 missiles, the number present last June 1, the Dutch will deploy 48 nuclear missiles as agreed in 1979. If the Soviet Union and the U.S. have agreed on a nuclear arms control pact by November 1 1985, the Dutch would deploy the number of missiles proportionate to such a pact. The Dutch would not deploy any of their Nato-assigned missiles if the Soviets station no more than 378 SS-20 missiles by the deadline. An American spokesman noted at a recent meeting of Nato's special consultative group that the member of SS-20s can vary "from day to day," because the bases used for the launching of SS-20 missiles can also be used for SS-25 intercontinental ballistic missiles. The Dutch Cabinet's decision applies only to the quantity of SS-20 missiles and ignores the number of bases and the target zones. The Dutch would not deploy any of their Nato-assigned missiles if the Soviets station no more than 378 SS-20 missiles by the deadline. The earliest that missiles could now be sited at the Woensdrecht air base in the south-west of the country would be the end of 1987, a foreign ministry spokesman said. He added that administrative preparations on property transfer and environmental regulations were going on but no construction had begun.

Warsaw Pact warns Nato over conventional forces

BY PATRICK BLUM IN VIENNA

THE WARSAW Pact warned yesterday that it would take counter-measures to balance out Nato's decision, announced in Brussels this week, to strengthen the Western Alliance's conventional forces. In an unusual and highly polemical counter-statement to the Nato countries' press briefing after yesterday's session at the talks on reducing conventional forces in Europe (MBFR), Mr Mikhail Kokevich, the Soviet spokesman, said: "If there is a continuation in the arms build-up of conventional forces on the part of Nato then we cannot remain disinterested." The tone of the Soviet statement stunned Nato officials in the light of recent more moderate statements made by the Warsaw Pact on the future of negotiations both in Vienna and those in Geneva, next month, between U.S. Secretary of State, Mr George Shultz, and Mr Andrei Gromyko, the Soviet Foreign Minister. To contrast the U.S. West favour of continuing American deployment. The WEU resolution is thus likely to be emboldened to demand that the Russians have also said that they would like a freeze. Recognising the delicate issue on which they are treading, the recommendation by the WEU Assembly is thus cautiously worded. It calls for a "possible, mutual, temporary freeze" on the further deployment of intermediate weapons and of short-range missiles—such as the Soviet SS21 and SS22. The move comes at a time when the WEU is taking on fresh life as a forum for defining a European viewpoint within the Atlantic Alliance on defence and strategic issues. In the U.S. view, any freeze on deployment would have to be part of an overall package with the Russians on arms control.

Exports lead growth in W. German textiles

BY ANTHONY MORETON

THE TEXTILE industry in the European Community has overcome its problems so well that it still remains a net exporter of textiles. Herr Ernst-Günter Plintke, the president of Gesamttextil, West German textile industry association, called on the EEC Commission to reject current Union aid for production and which others would also try to feed. The textile industry, after struggling for years with structural change, was going ahead in almost all EEC countries with production and orders improving. Mr Andriessen said. The industry, often wrongly pronounced as dead, had greatly increased its international competitiveness, he added. New members would have to abide by strict rules on subsidies from the moment they joined, he said, so that an opening of the EEC to the south did not give rise in other countries to production which others would also try to feed. The textile industry, after struggling for years with structural change, was going ahead in almost all EEC countries with production and orders improving. Mr Andriessen said. The industry, often wrongly pronounced as dead, had greatly increased its international competitiveness, he added.

Output of steel expected to rise 8% this year

BY PAUL CHEESERIGHT IN BRUSSELS

EUROPEAN Community steel production by the end of this year will be 8 per cent higher than in 1983, the Commission has calculated in its latest analysis of the market. Output for 1984 is put at 189m tonnes, compared with 174.5m tonnes in 1983. The increased tonnage shows how the steel industry has responded to the greater stability of the EEC economy, which this year will grow at a real rate of 2.5 per cent slightly higher than first estimated. But steel production in the first quarter of 1984 is expected to slow slightly compared with the last quarter of this year, with likely output calculated at 25.5m tonnes against just over 25m tonnes. The inventory of stockholders remains high, however, and on the assumption that stocks are run down by 0.5m tonnes, the Commission expects consumption in the 1985 first quarter to be 25.3m tonnes. The improvement in the state of the industry, implied by these figures, has been taking place against a background of a reorganisation and abutting down of production capacity. The Commission noted that in the first 10 months of this year the workforce in the EEC industry had shrunk by 29,300, or 1,000 more jobs than in the same period of 1983. Over the last year over two-thirds of the job losses have been in Italy.

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US\$25,000,000 Floating Rate Notes due June 1987
In accordance with the conditions of the Notes notice is hereby given that for the six-month period 7th December 1984 to 7th June 1985 (182 days) the Notes will carry an interest rate of 10 1/2 % p.a.
Relevant interest payments will be as follows.
Notes of \$5,000 U.S.\$265.42
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Luxembourg
Fiscal Bank
CREDIT LYONNAIS
London
Agent Bank

European industry, West German textiles have been badly hit by the recession. The number employed in textiles dropped last year to 241,489, the 13th successive year it had fallen. Unemployment reached 10.2 per cent and a further 2 per cent were on short time. In clothing the numbers also fell, to 193,942. Numbers have continued to drop this year but at a much slower rate and the industry has taken encouragement from the fact that the hours worked in July were up on a year earlier. As exports have risen so have imports—such as the U.S. which has made strong efforts to restrain the inflow of goods this year—Germany has welcomed them. Imports have flooded in, rising by 17.1 per cent to the end of August, and Dr Neundorfer sounded slightly crestfallen when he admitted that West Germany had lost its place (to the U.S.) in 1982, the last year for which figures are available, as the world's leading importer. Gesamttextil's optimistic view of the future was echoed by Herr Justus Mische, marketing director of Hoechst, one of the most important fibre producers in the world. "The man-made fibres business has continued to show a positive development this year," he said in his Frankfurt office. "During the first nine months our sales amounted to DM 1.79bn (£497m), a rise of 15 per cent. We consider the prospects for the rest of 1984 to be favourable." Some companies even appear to have gone through the recession without noticing it, such is their strength. "What recession?" asked Herr Werner Lehmann, sales director of Textilgruppe Hof, producer of jeans and sportswear in Hof, a Bavarian town near the borders of East Germany and Czechoslovakia. "We never worked short time. We invested sufficient to keep our machinery up to date and as our wage costs are only 20 per cent of turnover we are highly competitive. Our problem is our little capacity."

There is also concern that the Multi-Fibre Arrangement, the world agreement which regulates more than three-quarters of trade in textiles and clothing, could come to an abrupt end in the middle of 1986, throwing the business into chaos and confusion. "We would like to see the MFA extended after it expires," Dr Neundorfer says, "but only for a limited period." "It is still too early to go back to the general rules of GATT (the General Agreement on Tariffs and Trade) but we cannot continue with protectionist policies for ever. If we could get a long extension of the present MFA, say until 1993 or 1994, then I believe we could work our way out of protectionism altogether."

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OVERSEAS NEWS

BHOPAL GAS TRAGEDY

Share prices hit by fears over insurance liability

BY TERRY DODSWORTH AND PAUL TAYLOR IN NEW YORK

THE SHARP fall in Union Carbide's share price by \$5 to \$39 in the first few hours of trading yesterday underlined deep uncertainty in the U.S. about possible liability claims on the company over the Indian gas disaster and the extent of its insurance cover.



The degree to which the U.S. parent company is liable for an accident which happened in India.

In a worst-case scenario, some U.S. lawyers specialising in corporate liability issues are comparing the Bhopal disaster to the kind of problems Manville faced over massive asbestos exposure-related claims.

However, several lawyers who have represented both plaintiffs and defendants in similar cases seriously doubt that Manville-type charges could be made to stick against Union Carbide in the U.S.

Mr Stuart Speiser, one of the leading prosecution lawyers in product liability cases, said yesterday that he had turned down approaches from India asking him to represent families of possible claimants.

The main issues over which there are considerable arguments in the U.S. are:

claims not covered by insurance impinge upon corporation's viability.

However, Mr Speiser said yesterday that in his view the only location where Union Carbide could be sued in the U.S. would be in the State of Connecticut, where the company is headquartered.

To what extent the company is covered for various damages claims.

Union Carbide has said little on the issue. However it is understood that one of four Indian Government-owned companies carries the primary insurance risk.

This primary coverage has been widely laid off in the world reinsurance market and is thought to total at least \$200m (£166.6m) and could be as high as \$500m.

Feature, Page 17

S. Africa announces public sector pay freeze

By Anthony Robinson in Johannesburg

THE SOUTH African Government has announced a freeze on public sector salary increases next year and a radical change in the income tax structure which hits fringe benefits but raises the threshold for surtax payment.

The central Government's wage and salaries bill rose by 30 per cent between the first quarter of 1983 and the first quarter of 1984.

Mr Berend de Plessis, Minister of Finance, announced a series of tax changes which will require a temporary 5 per cent income tax surcharge from March 1 to "at least the end of June 1985" on taxable incomes above R10,000 (£4,500).

The surcharge will be required to offset the temporary loss of revenue expected from a shift in the entire income tax curve, which will raise tax thresholds for lower paid workers while raising the threshold for super-tax from R40,000 to R60,000 annually.

The rise in the 50 per cent super-tax threshold is designed to compensate for the effect of a drastic scaling down of tax concessions on fringe benefits, especially housing subsidies and company cars.

U.S. warns Pakistan on enriching uranium

BY SIMON HENDERSON

THE U.S. believes that Pakistan has developed the ability to enrich uranium and has warned President Zia ul-Haq that this could jeopardise the \$2.2bn (£2.6bn) military and economic aid programme started in 1981 after the Soviet invasion of neighbouring Afghanistan.

The warning was contained in a letter sent by President Reagan to President Zia in September, the existence and contents of which were not publicised. It emerged in October that the letter referred to Washington's continued concern about Pakistan's nuclear development programme which is widely believed to be for the purpose of building an atomic bomb.

U.S. officials say the letter warned Zia not to process uranium at the controversial Kahuta plant outside Islamabad beyond 5 per cent enrichment.

Natural uranium contains 0.7 per cent of the fissile isotope uranium-235 which can be used

FOLLOWING persistent reports that China may have provided Pakistan with information that could be used to develop nuclear weapons, Peking has again denied an "entirely groundless" allegation that it is spreading nuclear technology, reports Reuter. A Foreign Ministry spokesman recently said: "We are aware of an investigation report by the Carnegie Endowment for International Peace and the statement that China played a major role in allowing non-nuclear countries to possess nuclear technology. The report of that organisation is entirely groundless."

In atomic bombs. Enrichment of 5 per cent is useful for certain types of atomic reactor but bombs usually need 90 per cent enriched material.

The officials term the latest warning as a new "marker" which Pakistan must respect if the aid programme is not to be affected. Other markers previously communicated to Pakistan include not testing a bomb, not reprocessing plutonium (another possible bomb material), not assembling a bomb, and not asking another country to test a device on Pakistan's behalf (China has been thought to be willing to do this).

The U.S. warning appears to confirm the claim made in February by Dr A. Q. Khan, Pakistan's top nuclear scientist, that the country could enrich uranium. Western intelligence officials had previously believed that the Kahuta plant was beset by technical problems and still believed that Pakistan will have difficulties making its own highly enriched uranium.

by Mr Yaqub Ali Khan, the Pakistani foreign minister, during an hour-long meeting at the White House. Vice-President George Bush and Mr George Shultz, the secretary of state, also attended. The Pakistan envoy had a further meeting with Mr Shultz and also saw Mr Caspar Weinberger, the secretary of defence.

The meetings mostly concerned Soviet pressure on Pakistan from Afghanistan. Facing up to the Soviet Union in the region is widely perceived in Washington as being more important than policies on nuclear non-proliferation, although the latter is still a source of concern.

Zia's letter gave assurances that Pakistan would respect the new marker. Pakistan's stated position is that it only wants to enrich uranium for its civil nuclear power programme although it does not have any power reactors which use enriched uranium.

SA bishops attack police conduct

BY OUR JOHANNESBURG CORRESPONDENT

SOUTH AFRICA'S Catholic bishops have accused the police of acting "like an occupying army controlling enemy territory by force without regard for the civilian population and, it appears, without regard for the law during the recent upsurge of violence in the black townships."

In a report presented in Pretoria yesterday by Archbishop Denis Hurley, president of the Catholic Bishop Conference, the church quoted sworn affidavits indicating cases of gratuitous violence, rape, theft, indiscriminate shooting, beating and tear gas use and called for an immediate enquiry into police conduct and appropriate disciplinary action.

The report noted that there were cases of mob violence and that the police were provoked or had to act in self defence in some instances but added: "That cannot justify unwarranted or illegal conduct on the part of the police."

always last month achieved greatest support in areas where police activity had been the strongest.

The evidence in the report comes from sworn affidavits made by individuals before a commissioner of oaths in an attempt to avoid prosecution under the law which prohibits the publication of unproven accusations against the police.

It warned that "the legacy of bitterness and resentment that this wretched violence engenders serves only to postpone a just and lasting settlement of the issues dividing our country."

Business upturn for Zimbabwe

By Tony Hawkins in Harare

ZIMBABWEAN industrialists are more optimistic now than at any time since early 1981 according to the University of Zimbabwe's business opinion survey published today. The survey, which carries responses from companies representing an estimated 50 per cent of manufacturing output, finds that 44 per cent of respondents expect output or sales to rise next year, compared with 25 per cent a year ago.

Thirty-five per cent of respondents say they are operating at target capacity as against only 19 per cent in mid-1984, while just over 20 per cent say they expect profit margins to improve in 1985. Exports are up, with 39 per cent of companies improving their performance in the second half.

HQ faces up to crisis of disaster

BY OUR NEW YORK STAFF

ONE OF the main problems Union Carbide has faced in responding to the Bhopal disaster has been an enormous information gap. The company has consistently complained that the Press knew more about what was going on than corporate headquarters.

In an apparent attempt to overcome the lack of communication with the Indian-run plant, Mr Warren Anderson, the company's 63-year-old chairman and chief executive, has taken the hull by the horns and flown out to the disaster area with a small team of technical experts to deal personally with what must be the biggest crisis of his professional career.

Mr Anderson, a Union Carbide veteran of 39 years who has been responsible for a wide-ranging restructuring of the chemicals group since he became chairman in 1981, is clearly hoping to defuse criticism and shore up the company's battered image.

There have been some attacks on the company in the U.S. Press, particularly over

promises made and later withdrawn to throw open the doors of the company's nearby identical West Virginia plant which manufactures methyl isocyanate.

However, by European standards the company appears to have been unusually open, possibly drawing on the experience of Johnson and Johnson, the U.S. drugs group, in the poisoned Tylenol case, and J. & J. drew plaintiffs for its up-front treatment of the 1983 tragedy.

For example, Union Carbide has been holding daily Press conferences headed by a senior executive who is both a lawyer and an engineer.

Among other actions the company has taken in the 72 hours since the disaster struck are:

An immediate closure of its West Virginia plant, suspension of all shipment and processing of the chemical world wide and the run-down of existing supplies of methyl isocyanate stored at plants in Woodbine, Georgia, Cubato, Brazil and Beziers, France.

Promised medical help and assistance to disaster victims and offered to make any findings from the company investigation into the incident freely available to competitors.

Notified the U.S. environmental Protection Agency and all state and local environmental health departments of its actions.

In the immediate wake of the disaster, however, these actions have done little to defuse a wave of public anxiety caused by the incident which is now being reflected in Congress.

Rep Henry Waxman, a Californian Democrat, has already announced that he plans to hold a hearing next week in West Virginia to examine safety procedures. The press has also begun to question the adequacy of safety regulations governing the \$5.5bn (£4.58bn) a year U.S. pesticide industry and to query whether the Indian plant was subject to the same operating procedures as its U.S. counterpart.

Police refuse U.S. chief entry to plant

INDIAN POLICE yesterday refused to allow a U.S. executive access to the Union Carbide pesticides plant at the centre of the world's worst industrial disaster, reports our Foreign Staff.

Mr Warren Anderson, who was manager of the plant until two years ago, said police gave no reason for refusing him entry. He said the plant operated to the same safety standards as a similar plant in the U.S.

"The process is the same, the chemistry is the same, but the scale is different. The West Virginia plant is

larger," he said. Mr Anderson arrived in India yesterday as part of a six-man team from the U.S. parent company headed by Mr Warren Anderson, Union Carbide chairman.

Mr Anderson did not travel with others in his team to Bhopal but remained in Bombay.

Meanwhile, worldwide reaction to the disaster included the fixing of a Congressional investigation in Washington next week into the safety of the similar Union Carbide plant in West Virginia.

A hearing by the House sub-committee on health and the environment will be held in Charleston, not far from the factory.

In West Germany a petrol bomb exploded in front of a Union Carbide plant in Hiltstedt. Police said no damage was caused.

Bayer, the West German chemical group which produces methyl isocyanate at a works north of Cologne and at Antwerp in Belgium, ruled out any possibility of an accident similar to the Bhopal disaster. The company said it used a different production procedure and took strict safety precautions.

Shoot on sight curfew imposed on Colombo

THE Sri Lankan Government yesterday imposed a night curfew on the capital of Colombo and ordered troops to shoot troublemakers on sight, Reuter reports from Colombo.

A spokesman said the curfew was a precautionary measure to prevent a backlash by the city's majority Sinhalese against the Tamil minority following an upsurge in violence by Tamil separatist guerrillas in the north of the island.

"Police and troops have been ordered to shoot on sight any people attempting to create mischief," he said.

It is the first time the government had announced shoot-on-sight orders since Tamil guerrillas began their violent campaign for a separate state for the island's 2.5m Tamil minority nine years ago.

The curfew in the capital was due to last five hours from 5.30 pm GMT. A curfew is still in force in much of the north and northeast of the island.

Soldiers were earlier reported to have gone on a rampage and killed at least 83 unarmed civilians after a Tamil guerrilla attack on an army convoy in northwest Sri Lanka.

The Colombo curfew follows the kidnapping two days ago of nine people in the northern district of Jaffna by guerrillas who attacked a train. The hostages

are believed to be from the Colombo district.

Mr Lalith Athulthamdhali National Security Minister said yesterday he believed the guerrillas had killed the hostages even before issuing a ransom demand for their release.

Local residents who saw the bodies of the civilians killed by soldiers in northwest Sri Lanka told Reuters the troops had fired indiscriminately into houses, shops, a post office, buses and rice fields near the town of Mannar on Tuesday after guerrillas set off a landmine under a jeep, killing one soldier and injuring six.

The Sri Lankan Government yesterday denied reports that the army had gone on a rampage and killed civilians in revenge for attacks by guerrillas in Mannar.

Mr Athulthamdhali told a news conference 31 rebels were killed when troops replied with gunfire after the ambush. So far, 83 bodies are understood to have been recovered along the Mannar-Colombo road and more are expected.

The curfew is under a 12-hour night curfew and buses have stopped running because drivers are too frightened to take out vehicles following an army attack on two buses, sources said.

NZ holds down wage deals in first round

By Dal Hayward in Wellington THE NEW ZEALAND Labor Government has achieved something of a political success in its first big challenge by holding down wage rates in wage talks which began this week.

The first three unions to settle after 18 hours of intense negotiations have accepted increases of between 6.4 per cent and 7.02 per cent.

Mr David Lange, the Prime Minister, said the Government was satisfied with the outcome. Earlier Mr Lange and Mr Douglas, the Finance Minister, had said they were looking for a guideline of no more than 5 per cent.

Unions declared the minimum would be the 9.6 per cent recommended by the Federation of Labor while most employers, trying to stay below the Government guidelines, offered 2 per cent.

In some behind-the-scenes manoeuvring, which upset individual employer negotiators who were not privy to the private discussions, leaders from the unions, employers and the Government agreed on the 6.4 per cent to 7.02 per cent.

The new rate means about \$13 (£5.20) a week more for the average wage earner. The increase also applies to allowances.

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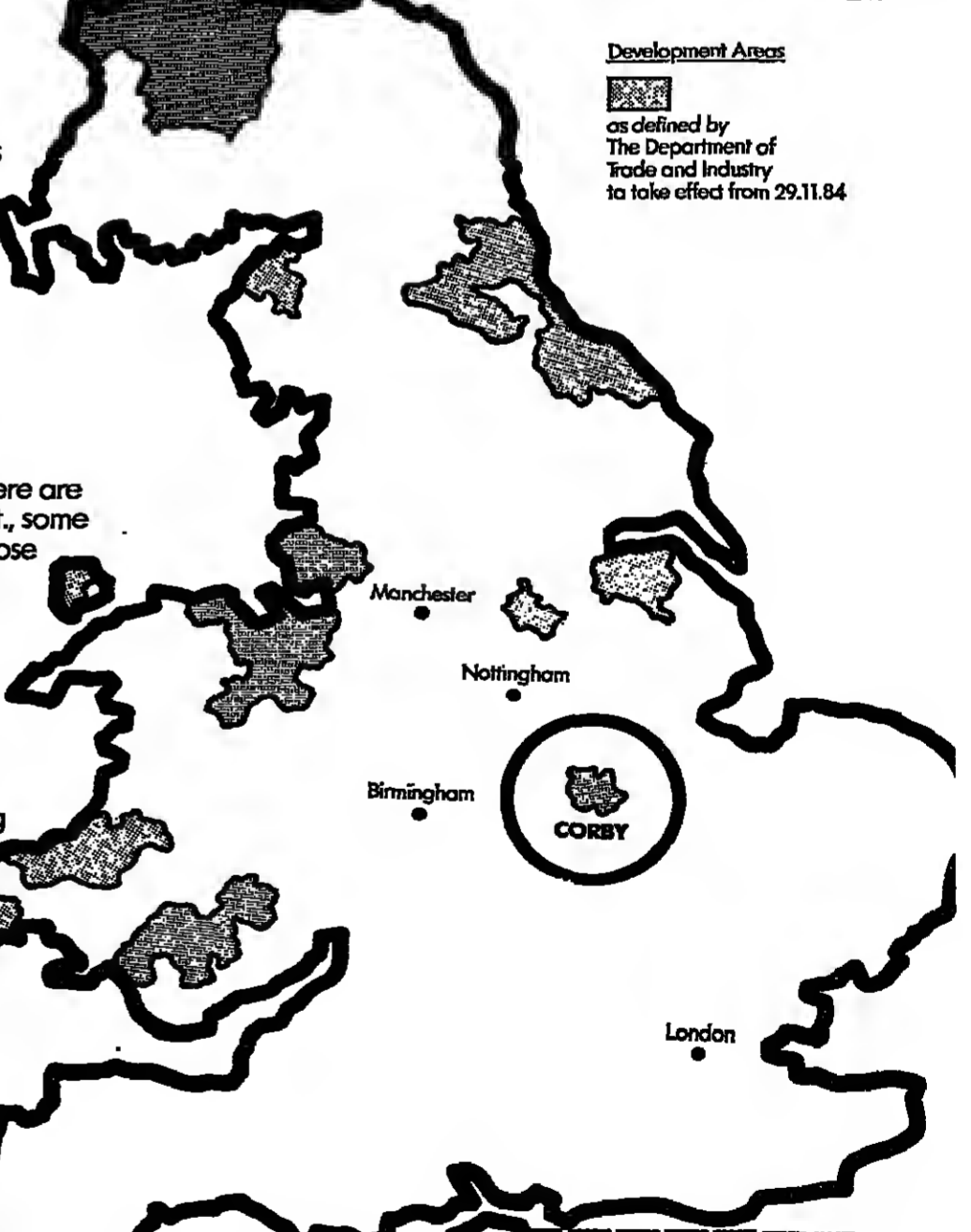
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# AMERICAN NEWS

## Canada to table draft Bill relaxing curbs on foreign investment

BY BERNARD SIMON IN TORONTO

DRAFT legislation relaxing curbs on foreign investment in Canada will be tabled in parliament in Ottawa today.

The draft Bill, amending the Foreign Investment Review Act of 1973, is expected to be a far-reaching one, implementing promises made by the Progressive Conservative Party during last September's election campaign to improve significantly the climate for foreign investors in Canada.

The new legislation will re-define the role of the Foreign Investment Review Agency (FIRA), the Government body which screens almost all acquisitions and new business ventures in Canada involving foreigners.

Government officials have indicated that the vetting process will in future be limited to large transactions and those involving politically sensitive sectors, such as energy, broadcasting and publishing. FIRA will be renamed "Investment Canada," and its mandate will include the promotion of foreign investment in the country.

Canada is more dependent on foreign capital than almost any other industrial country. Foreigners control about 10,000 Canadian companies. The book value of direct foreign investment in Canada is estimated at C\$72.5bn (£48bn). At the end of 1983 U.S. companies

accounted for 78 per cent of the total foreign stake, followed by Britain 9 per cent.

FIRA has been a major irritant to foreign investors in Canada during the past decade and its activities have contributed to strained relations with the U.S.

Buttressed by discrimination against foreign oil and gas companies under the 1981 national energy programme, the curbs on investment contributed to long-term capital outflow of C\$5.3bn in 1980-82. The previous Government began to streamline FIRA's vetting procedure two years ago and the upturn in the Canadian economy has encouraged renewed inflows of foreign investment since late 1983.

Canada's trade surplus rose to a record C\$2.3bn in October, compared to slightly less than C\$2bn in September, statistics.

Exports were virtually unchanged at C\$8.8bn but imports dropped by 4.4 per cent, following a similar decline in September from a record C\$10.2bn.

Automotive products accounted for the bulk of the fall in imports, reflecting the two-week strike at General Motors' plants in Canada in the second half of October.

The trade surplus is expected to reach about C\$20bn this year and a similar level in 1985, compared to C\$17.7bn in 1983.

## Mexican peso devalued further

By Ronald Buchanan in Mexico City

MEXICO HAS finally yielded to pressure from local industry and foreign bankers and announced an acceleration in the rate at which its peso is allowed to fall against the U.S. dollar.

But the new daily devaluation of 17 centavos announced by the Finance Ministry on Wednesday night will not be enough to offset the difference in inflation between the U.S. and Mexico, bankers said yesterday.

It is equivalent to a depreciation of 40 per cent a year, whereas inflation in Mexico of some 65 per cent is running about 60 per cent faster than in the U.S.

The slow rate of depreciation of the peso, which was previously pegged at 13 centavos a day, has led to a real increase in the value of the Mexican currency this year. Bankers fear this is making industry and tourism less competitive and could rekindle the inflation which was a major factor behind the debt crisis of 1982.

But the Mexican authorities have staunchly resisted a steeper devaluation for several months, arguing that the export sector was performing well and that a high currency rate is needed to check inflation.

The new depreciation rate applies to both the controlled market which is used for major commercial transactions and the free market which is used for financial deals

## Tancredo set for victory in Brazil

BY ANDREW WHITLEY IN RIO DE JANEIRO

THE broad outlines of an informal pact between the opposition parties and the Brazilian military, to permit a smooth handover to civilian rule next year, are taking shape.

The groundwork for the pact has started being laid over the past week, following the recognition that Sr Tancredo Neves, the opposition leader and presidential candidate, has now amassed enough pledged votes to be virtually certain of victory in January's indirect elections.

The Supreme Electoral Tribunal (SET) ruled that delegates to the Electoral College (EC) are not obliged to vote in accordance with the parties on whose ticket they were elected. This means that government party dissidents will be able to support the opposition candidate.

Barring a last minute upset, now looking increasingly unlikely, the 74-year-old former prime minister thus looks set to lead his broad coalition—ranging from the extreme left to the traditional right—into power next March.

The main points of the unwritten pact with the military appear to be:

● There will be no investigation of the military's record during its 21 years in power. "Revenge" to use the current political codeword, is out.

● Mutual agreement between the outgoing regime and the embryonic new government on the choice of military ministers,

in charge of the three branches of the armed forces.

● "Provocations" to the consciences of the military, in the form of left-wing dominated public rallies in the run up to the election are being severely limited by Sr Tancredo.

● The armed forces have formally declared, in return, that they will not permit any last minute changes to the electoral rules, to permit a comeback by Sr Paulo Maluf, the badly trailing official candidate.

As part of this growing understanding between the opposition and the outgoing military-backed Figueiredo government, Sr Tancredo recently declared that he was content to leave negotiations on rescheduling Brazil's \$100bn (£50bn) foreign debt to the present team, headed by Sr Antonio Delim Netto.

The opposition leader went out of his way to praise Sr Delim's competence. Faced with the threat of expulsion, on Monday two leading dissidents, vice-president Aureliano Chaves and Sr Helio Beltrao, a long serving former government minister, announced their voluntary resignation from the official party.

For his part, President Joao Figueiredo has been quietly distancing himself from his party's chosen successor. In effect he has abandoned the party of which he is honorary president to Sr Maluf.

Front of stage the PDS has been playing out its death agonies. But behind the scenes

pervades the government party, the Partido Democratico Social, or PDS.

Firmly in the hands of Maluf supporters, the ramp of the PDS last weekend launched a witch hunt against prominent party members who have deserted to the Tancredo camp.

In recognition of the likelihood of a Tancredo victory, discussion has already begun within the Democratic Alliance, as the political grouping behind the opposition leader is known, on the distribution of government portfolios.

In counterpoint to the confidence within the opposition, an increasing level of bitterness



Sr Tancredo—enough votes to ensure a win

traditional Brazilian pragmatism in the face of reality has in recent days brought about a number of discreet, but important, meetings between the opposition candidate and Brazil's service chiefs.

A key meeting, publicly denied but privately confirmed by Tancredo aides, apparently took place with General Walter Pires, the Army Minister, a deeply loyal supporter of President Figueiredo.

Its purpose, according to usually well informed Press reports, was to reach an understanding on the transition and, more mundanely, to discuss the military's future budgetary needs.

In a surprise move General Pires, usually regarded as a political hardliner, issued a statement giving the army's backing to the maintenance of the existing rules governing the selection of Brazil's president by an electoral college.

After a series of meetings with the army's high command, General Pires guaranteed that the armed forces would preserve Brazil's "democratic institutions" and would not allow the succession to descend into a judicial battle through the courts on fine interpretations of electoral law.

It was a clear rebuff to the hopes of Sr Maluf that the military's known distaste for the Leftingers in the Tancredo coalition would overcome their determination to maintain the pre-arranged succession procedures.

But behind the scenes

## NYC broker on insider trade charge

By William Hall in New York

A U.S. federal grand jury has charged a New York stockbroker with using inside information to illegally trade in the shares of Marathon Oil ahead of its \$6.4bn (£5.5bn) takeover by U.S. Steel in 1982.

The jury has charged Mr David Rapoport, a former partner with Paul L. Forchheimer & Co., a small New York broker, of using an account at Ellis to trade in Marathon call options. Mr Rapoport is the eighth person to be charged in the so-called "Sullivan and Cromwell" case which involves the former office manager of the well known New York law firm who has been charged with leaking sensitive information about corporate takeovers.

Ellis has been earlier named by the Securities and Exchange Commission (SEC) which is investigating what is believed to be the largest case of insider trading in Wall Street history. The SEC has charged that many individuals from a New York suburb had used Ellis to trade stock and options in U.S. companies ahead of takeover announcements. There have been reports that over \$47m in profits could have been made on these illegal trades.

The SEC has refused to say whether there is any link between its own investigations and the federal grand jury charges.

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## Reagan to outline policy on apartheid to Tutu

BY REGINALD DALE, U.S. EDITOR, IN WASHINGTON

PRESIDENT RONALD Reagan has agreed after initial reluctance to meet Bishop Desmond Tutu, the black South African Nobel Peace Prize winner, to explain his policies on apartheid, the White House said yesterday.

Officials said that Mr Reagan had decided to invite Bishop Tutu to the White House today after learning of his impassioned criticism of administration policy in congressional hearings in Washington earlier this week.

Mr Reagan's decision came as the black-led anti-apartheid movement in the U.S. continued to put pressure in the Administration to take a stronger stand. Mr Randall Robinson, head of the Washington-based TransAfrica organisation, said that the two-week-old protest campaign

would be broadened to cities all around the U.S. and would spread to Europe.

He said that the demonstrators would seek an end to investment in South Africa and a boycott of companies doing business there. They would campaign for the withdrawal of pension funds invested in South Africa and a boycott of South African gold kruggerands, to "hurt the economy", he said.

Mr Chester Crocker, the Assistant Secretary of State for Africa, said that although no American sympathised with apartheid, U.S. ability to effect change was limited.

He added, however, that the recent wave of anti-apartheid demonstrations was "not unhelpful" in getting the Administration's message across.

## Nicaragua businessmen say travel is restricted

MEXICO CITY - Nicaraguan businessmen

leaders accused their country's left-wing Government yesterday of imposing arbitrary travel restrictions on prominent members of the opposition in what they called a new crackdown on dissidents.

Members of Nicaragua's Superior Council of Private Enterprise (Cosep) told a news conference in Mexico City that those prevented from leaving Nicaragua since general elections there on November 4 included Sr Enrique Bolanos Cosep's president, and Roman Catholic Bishop Pablo Antonio Vega.

Cosep is a member of the Democratic Co-ordinator, an alliance of right-wing parties and organisations which boycotted the elections saying the ruling Sandinista National Liberation Front (FSLM) had failed to provide fair conditions.

Sr Ramiro Gardian, vice-president of Cosep, said the Sandinistas had prevented some dissidents from leaving by ripping pages out of their passports at Managua airport. Others were refused exit visas and in some cases, Sr Gardian said, the authorities refused to issue passports.

He said Sandinista harassment of dissidents and human rights violations had increased since the elections, in which the FSLM reaped about two thirds of the vote.

The Sandinistas have said the restrictions were necessary as part of a state of alert called shortly after the November 4 polls amid fears of a U.S. invasion.

"The Government has drawn up a list of four typewritten pages of people who are not allowed to leave the country," Sr Gardian said. This was part of a plan to crush the opposition, he added.

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WORLD TRADE NEWS

Stewart Fleming looks at the way demands for protectionism are gaining ground  
**U.S. business shifts stance on free trade**

MR LEE MORGAN, Chairman of the Caterpillar Tractor Company and, in recent years, one of corporate America's most ardent free trade advocates, has held a series of meetings with some of President Ronald Reagan's closest advisors. They include Mr James Baker, the White House chief of staff, Mr Donald Regan, the Treasury Secretary, and Mr Ed Meese.

Mr Morgan's message on behalf of the 21-member corporate trade lobby, The Business Roundtable, was not the free trade litany Washington has been accustomed to hearing from him.

"The U.S. business community is becoming aroused," in the face of a trade deficit which will almost double to \$130bn (\$108bn) this year, he says. The American industrial machine is in danger of being "dismantled" as a result of the competitive liability created by an overvalued exchange rate and unfair trade practices abroad.

"There is a perception that the playing field is becoming... disadvantageous to American business, and this puts at issue (our) position on free trade," he says.

"We do not want to have as our corporate epitaph that we died supporting free trade... The president needs to be told by some big guns."

Mr Morgan's mission is a strong sign that, with the elec-

tion out of the way, the pent-up floodgates of discontent over economic policy, budget deficits and a soaring dollar are now open.

The corporate sector is worried that not only will foreigners continue to steal their business at home and abroad, but that they will do so at a time when the economy could be sinking into a protracted period of sluggish growth.

Corporate muscle flexing, however, is not as inconsistent now as it was earlier in the year with Administration policy, and there are numerous signs that the Reagan team is moving towards a stronger assertion of U.S. interests abroad. A tough line is being taken on EEC pipe and tube shipments to the U.S., and on overall imports of steel. The U.S. has cracked down on textile imports from the Third World.

A row is also brewing between the EEC and the U.S. on agricultural export subsidies. The U.S. is maintaining its opposition to the Common Agricultural Policy and is pressing the Community to eliminate export subsidies.

There is also growing restiveness in the U.S. about its \$30bn trade deficit with Japan. One target is the possible tightening of the U.S. telecommunications equipment market in retaliation for the difficulty U.S. telecommunications producers have in

exporting to the restrictive markets of Japan and Europe.

The U.S. signalled its militancy again last week with strong pressure on the General Agreement on Tariffs and Trade to push for increased liberalisation of trade in services. It is the one area of trade in which the U.S. is a world leader. In the face of visible trade deficits with virtually all its major trading partners, the U.S. is all the more anxious to exploit one of its few remaining trading strengths.

Next week, it will be pressing the OECD to stamp out mixed credits (aid combined with commercial lending) which it regards as unhealthy and unfair competition.

The International Trade Commission is being confronted by an accelerating flow of complaints by aggrieved companies over imports, and is currently handling more than 200 in-

dividual trade complaints.

Certainly, any sudden fall in the dollar or any effort by the Administration to convincingly tackle the deficit could change the picture quickly, but there is little sign of either event taking place.

The post-election pessimism is all that more stark given the up-beat atmosphere during the year in view of the strong

Significantly, there were some bones for the protectionists. The legislation opened the door for the U.S. to seek more effective protection for intellectual property rights of U.S. companies and the interests of U.S. businesses who invest directly overseas.

After passage of the legislation, Sir Roy Denman head of the EEC delegation in Washington, remarked: "We have escaped disaster." But he quickly warned: "Our trade difficulties are not going to go away, and may even get worse in 1985."

Such fears are now commonplace in Washington as the economic outlook worsens. Even so renowned an internationalist as Mr Henry Kissinger, President Nixon's Secretary of State, has been heard to speculate whether the time is approaching when the U.S. should follow Japan's lead and "manipulate the trade system as it really operates."

representative, in spearheading the Act's passage, also won Congressional approval for the bilateral free-trade accords, initially with Israel. And for the first time, the Administration was given authority to negotiate the liberalisation of trade in services, an issue that was to prove contentious at the Geneva Gatt meetings.

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**Israel may buy nuclear plant from France**

By Paul Betts in Paris

ISRAEL is considering the purchase of a nuclear power station from France. The issue is expected to be raised by Mr Shimon Peres, the Israeli Prime Minister, during his current official visit to Paris.

The French nuclear power station group Framatome said yesterday that it would be pleased to supply Israel with a nuclear plant if it was given the go-ahead by the French government.

A deal could involve a 950 Mw plant. However, Israeli officials following Mr Peres' French visit have declined to confirm or deny the reports that the nuclear plant issue would be raised with President Francois Mitterrand.

Any negotiations with Israel would coincide with renewed efforts by Iraq to speed up the replacement by France of a French-built nuclear research reactor destroyed by an Israeli air raid in 1981 near Baghdad.

France has so far managed to delay an agreement to replace the Iraqi reactor.

But the French position is nonetheless complicated because of President Mitterrand's efforts to improve relations with Israel while maintaining France's strong ties with a number of key Arab states.

France and Israel signed a nuclear co-operation pact in September 1956. But this co-operation in the nuclear field between the two countries ended in 1967 following a dispute between Paris and Israel which soured bilateral relations for more than a decade.

**Singapore Airlines attacks Britain over flights move**

BY CHRIS SHERWELL IN SINGAPORE

SINGAPORE International Airlines (SIA), the tiny island state's highly successful national flag carrier, yesterday accused the British Government of taking a contradictory stand over its application to operate services to and from Manchester.

The accusation, which follows the UK Department of Transport's recent rejection of the SIA request, is the airline's strongest public comment yet on the issue and could well fuel a simmering row between Britain and other South-East Asian airlines.

The Malaysian and Philippines national airlines, have also pressed unsuccessfully for extra flights to Britain over recent months.

Mr Nicholas Ridley, the UK

Transport Minister, has been criticised both in the House of Commons and the British Press for his "restrictive attitudes."

The SIA attack was voiced by Mr Lim Chin Beng, the airline's deputy chairman yesterday. He criticised the Transport Department for its "protectionism" in suggesting that SIA should reduce its services to Heathrow before it could be granted landing rights to Manchester.

The department's attitude, he claimed, was "plainly quite contrary to the declared policy of the British Government for free competition."

The Department of Transport has said the traffic does not justify more flights, and Mr Lim said yesterday SIA would pursue its "legitimate request."

**Balance of trade shifts in favour of East bloc**

BY ANTHONY McDERMOTT IN GENEVA

ECONOMIC ACTIVITY in both Western and centrally-planned economies has expanded in recent years, but the balance of trade is fast shifting towards the East bloc nations, says the annual economic bulletin of the UN Economic Commission for Europe (ECE).

The report said that the volume of Western imports from East Europe increased by 17 per cent in the first half of the year compared with the same period in 1983.

This followed a 9 per cent rise for the whole of 1983 after three consecutive years of decline.

The East bloc's current account surplus with the West is likely to increase in 1984 and this should lead to a further reduction in the East's convertible currency debt, standing at \$70bn at the end of 1983.

The ECE groups some 30 countries from both East and Western Europe as well as the Soviet Union, the U.S. and Canada.

The Western trade balance with the East bloc has fallen from a surplus of \$2.4bn in 1982 to a deficit of \$1.3bn in 1983 and is widening fur-

ther this year.

A feature of the increase in Western demand was the 50 per cent rise in U.S. import demand from the East bloc countries. Western European imports rose only marginally. The import rise from the Soviet Union was due largely to oil and oil products. Increased Western exports to the Comecon bloc as a whole in the first half of the year consisted largely of "intermediate" goods, but Western deliveries of engineering goods continued to fall.

The report points out that the development of trade between the East bloc and Third World nations has been weaker than trade growth between the West and the Third World.

The study speculates that the evolution of East-West trade "has probably reduced both the capacity of the European economies and the Soviet Union to stimulate export growth in the less developed countries (LDCs), and the capacities in the LDCs to demand to influence the economies of industrialised countries."

**Bank of China loan for plant in Hong Kong**

By Christian Tyler, Trade Editor, in London

THE Bank of China emerged yesterday as one of the two principal lenders for a HK\$210m (\$22.34m) town gas project in Hong Kong. The contract to build the plant was recently won by Babcock Woodall-Duckham of the UK.

It is said to be the first time that the Bank of China has been involved in a British export credit.

The loan agreement with Hong Kong and China Gas was signed yesterday. Bank of China and Standard Chartered Asia are providing 40 per cent each and Wardley 20 per cent of a HK\$165m loan arranged by J. Henry Schroder Wagg, the London merchant bank. The loan is being supported by Britain's Export Credits Guarantee Department.

According to leaked reports overseas, the loan is at a fixed rate of 11 per cent, repayable over 8 1/2 years.

Babcock won the contract against strong competition from Japan, West Germany and Denmark.

It is to build four gas plants at Tai Po in the New Territories, capable of producing 3.8m cu m a day and doubling the utility's output of town gas for the colony.

**Peugeot assembly plant**

PEUGEOT, the private French car group, is negotiating with China the construction of an engine component assembly plant at Canton, Paul Betts writes from Paris.

Peugeot confirmed yesterday that negotiations were taking place between China and the French group's Automobiles Peugeot division which includes the Peugeot and Talbot car marques. The group also owns Citroen.

Apart from the Canton plant to assemble components for China's existing car production, Automobiles Peugeot is also negotiating the export to China of cars assembled in France.

**U.S. investment in UK**

SEVERAL U.S. companies are likely to invest in England's West Midlands, according to the region's Industrial Development Agency, Lorne Barling writes.

A spokesman for the agency said that various incentives meant that the area could compete on more equal terms with other parts of England.

**Trade barriers 'target for Netherlands parties'**

BY PETER SPINKS IN AMSTERDAM

THE THREE main political parties in the Netherlands are in favour of reducing trade barriers rather than curbing provision for Third World aid next year, Mr Harry Aarts, chairman of the Dutch Parliament's Development Aid Commission, said.

One such target is the Multi-Fibre Arrangement (MFA), the international textile agreement that governs most of the world's trade in textiles. It was set up in 1974 to allow European textile industries to reorganise to meet Third World competition. It has since been renewed twice and faces a further renewal by July, 1986. Mr Aarts says the MFA should be abolished.

Mr Aarts' proposals were made in a recent interview and follow an International Food Policy Research Institute survey earlier this year which indicated that a 50 per cent reduction in Western nations' trade barriers would increase Third World exports by 11 per cent, or \$3bn annually.

His remarks are the latest in what is emerging as a long, theoretical debate on how to administer trade. The debate has been joined not only by the ruling Christian Democrat-Liberal coalition, but by the opposition Labour Party.

The debate centres not on the amount of aid to be provided, but on the method of its application, and particularly whether it is the lesser developed countries or the newly industrialised nations that are benefiting most from it.

Trade between the Netherlands and the Third World has risen steadily in the last decade. Although the EEC took two-thirds of Dutch exports last year, Asia, Afri-

ca and Latin America accounted for \$6.5bn of the \$77bn in total trade.

This is seen largely as a result of a high proportion of development aid being tied to Dutch business interests. With a development aid budget set at 1.5 per cent of net national income (0.9 per cent of GNP), the Netherlands currently ranks second, behind Norway in the world's league of Third World donors.

The Dutch increased their annual aid contributions to developing nations from Fl 787m (\$216.8m) in 1970 to Fl 4.4bn in 1983, although the budget ceiling dropped last year for the first time by Fl 35m.

Following the present British, U.S. and West German trend, the Dutch Minister for Development Co-operation, Mrs Eegje Schoor, recently proposed measures which she claims will remedy the frequent complaint that over a third of Dutch aid is inefficiently spent.

These measures would give less emphasis to bilateral aid. They would include changing the system of budgeting whereby funds are allocated several years ahead following agreements with developing countries as to how they intend spending their aid.

It is also envisaged that aid be provided in future on condition that a higher proportion - estimated by Government sources to be around 40 per cent at present - be spent on buying products from Dutch companies.

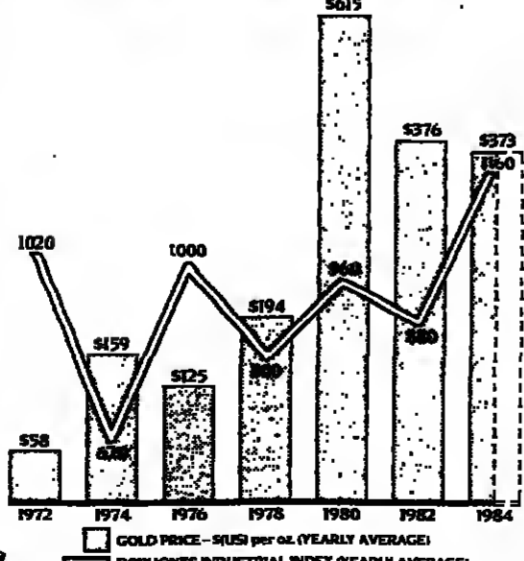
Government critics argue, however, that this is a two-pronged issue - with Dutch companies perhaps benefiting from more aid being spent in the Netherlands, while at the same time being given "game duck" protection in the form of hidden subsidies in ailing industries.



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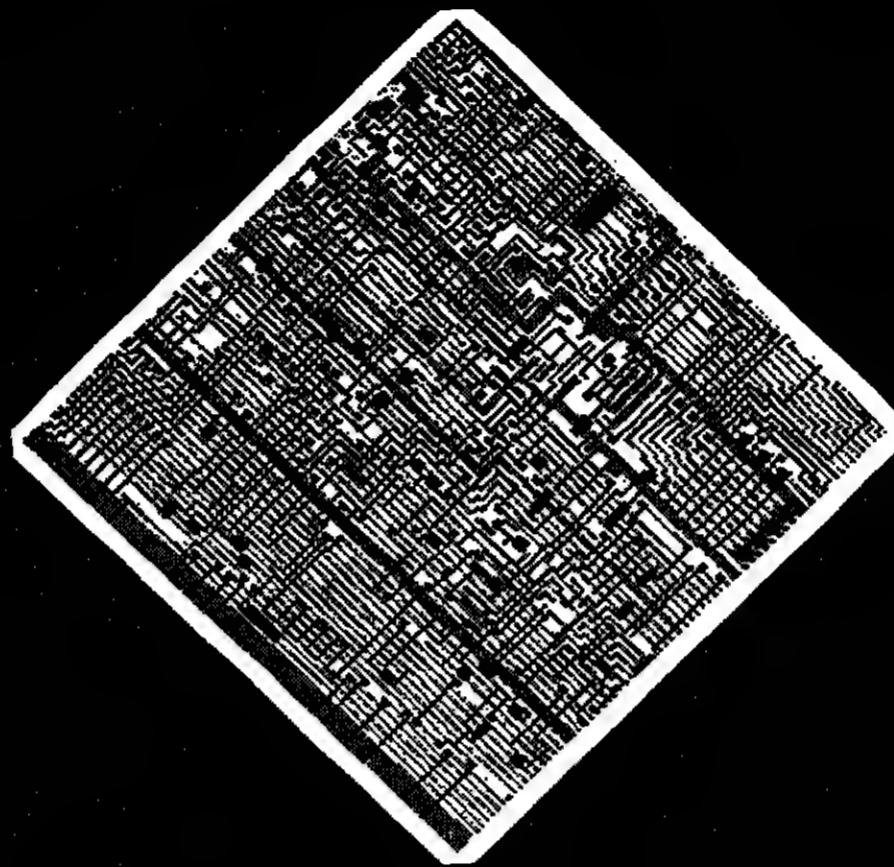
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UK NEWS

Thatcher sets tax reforms as top priority

BY PETER RIDDELL AND MAX WILKINSON

AN INCREASE in income tax thresholds is the Government's top fiscal priority, Mrs Margaret Thatcher, Prime Minister, and Mr Nigel Lawson, Chancellor of the Exchequer both indicated yesterday.

Mrs Thatcher told MPs in the House of Commons that there was great need to give tax assistance to low wage earners. Later, during a debate on the Government's autumn economic statement, Mr Lawson said he hoped to continue to raise tax thresholds well ahead of inflation to benefit not just the few but the many.

The Treasury has indicated that about £1.5bn might be available for tax cuts in the next spring budget. However, it has become apparent in Whitehall that the room for manoeuvre may be squeezed since the additional cost of buying oil rather than coal to provide electricity is likely to be borne by the Treasury, and hence the taxpayer, rather than through a special levy on consumers, the so-called Scargill surcharge.

No decision has been taken but this is the opinion of ministers and officials involved.

Mr Lawson is also coming under pressure from a wide range of his own backbenchers to use any available money on capital investment projects rather than on income tax cuts, which one MP said would just be spent on imports from Japan. Mr Lawson said this was a "defeatist attitude."

Mr Lawson's speech came only a few hours after the publication of a

critical report on the autumn statement from the cross-party Treasury and Civil Service Committee of the Commons. This questioned both some of the economic assumptions lying behind the hope of tax cuts and they way in which the spending decisions had been taken.

In particular, the committee questioned whether the Cabinet was considering spending priorities as a whole. In reply, Mr Lawson argued that the mechanism used mattered much less than the need to use political judgment. He said that the results were determined as much by constraints as by priorities.

The Committee says it is sceptical about Mr Lawson's scope for tax cuts.

It says that the Treasury's estimate of £12bn North Sea oil revenues for 1985-86 is £2.5bn higher than its estimate at the time of the last Budget and is vulnerable to any fall in the dollar which might reduce the sterling value of the revenues.

The committee also expresses anxiety about the plans to require a higher rate of return from nationalised industries. It says that, in particular, the water industry will probably have to use its monopoly power to increase its charges and adds: "This will undoubtedly place a burden on industrial costs as well as the domestic householder."

Mr Lawson is told that extending the range of value added tax in order to raise the money to finance tax cuts would be a mistake.

Kinnock warns against general strike on pits

BY PETER RIDDELL, POLITICAL EDITOR

MR NEIL KINNOCK, leader of the Labour Party, yesterday condemned both violence and calls for a general strike in support of the striking miners.

After a meeting at the House of Commons between members of Labour's national executive and union leaders, Mr Kinnock warned that everything possible must be done to stop the case for coal being obstructed by violence.

In response to demands from left-wing members of the executive such as Mr Dennis Skinner and Mrs Audrey Wise, for a general strike, he said that this would be disastrous.

"The prospect of a general strike is nil and any threat of a general strike without a prospect of it being successful would be terminally damaging to the movement's chances of putting the case for coal over the public," Mr Kinnock said. "It would be yet another cul de sac."

Instead, the meeting agreed to support in principle the points submitted by the National Union of



Mr Neil Kinnock: violence damaging miners' cause

and the NUM leadership were underlined yesterday when Mr Arthur Scargill, the NUM president, said that the recent actions by the courts were "the greatest challenge" ever faced by the labour movement.

In an article in Labour Weekly, the party's newspaper, Mr Scargill said that there must be industrial action "the most massive mobilisation of industrial action our movement has ever known, and we must have it now. There is no other way to stop the courts' attempt to destroy the NUM."

In a clear challenge to Mr Kinnock, Mr Scargill said: "Trade union and Labour Party Leaders must now stand up in contempt of laws being used against us - or remain forever in contempt of all those they represent: all those whose futures are at stake in this crucial battle."

TUC leaders last night told the NUM in unequivocal terms that any and all support it could give the union would be limited to lawful actions.

Mineworkers (NUM) to the Trades Union Congress (TUC) to enable the union to operate on a day-to-day basis, despite the order by the High Court for the seizure of its assets. The strains between Mr Kinnock

Receiver for NUM to resign

BY RAYMOND HUGHES, LAW COURTS CORRESPONDENT

THE SOLICITOR appointed by the High Court to act as receiver of the National Union of Mineworkers (NUM) is to give up the post after only a week.

Mr Herbert Brewer replaced the union's three trustees - who included Mr Arthur Scargill, the NUM president - in the court's attempt to sequester the union's funds. The union has failed to pay a £200,000 fine imposed for contempt of court for failing to obey injunctions not to describe the pit strike as official.

The High Court was told yesterday that Mr Brewer was not willing to continue and would be replaced, if the receivership continued, by Sir John Arnold, of chartered accountants Arthur Young McClelland Moores. He will stay in office until the court rules today on whether the receivership should continue.

Mr Brewer attracted considerable publicity after his appointment and on his unsuccessful trips to Luxembourg and Dublin this week to try to gain control of NUM funds. The union criticised his appointment on the grounds that he was a life vice-president of his local Conservative Association in Derbyshire and a member of the Institute of Directors.

Mr Martin Redmond, a Labour MP and an NUM member, said in evidence to the court that Mr Brewer's selection as receiver had been "highly provocative and totally inappropriate."

Mr Philip Heslop, counsel for Mr Brewer, said Mr Brewer had been prepared to take up the post in circumstances of enormous urgency.

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Horizon holiday price cuts may spark another package tour war

HORIZON, Britain's third largest tour operator, has raised the prospect of another holiday price war by cutting its prices for next summer.

At the same time the Civil Aviation Authority (CAA) has blamed much of the travel industry's problems on price wars and has unveiled stricter controls for package tourism.

Horizon has cut an average 3 per cent off the prices of its programme of 450,000 holidays for next year. The biggest cuts are on peak summer trips to Spain, where some tours have been reduced by as much as £50. About 200,000 holidays will be cheaper.

In making the cuts, Horizon is admitting that it overpriced when it first produced its programme in September. "We do not think our competitors will see this move as provocative," said Mr Ken Franklin, chairman and managing director.

Horizon was one of the first tour companies to produce a programme for 1985. It lifted its prices for Spanish holidays by more than 23 per cent because, he said, "we were certain that sensible margins had to be restored for next summer if the industry was to maintain stability."

The Spanish hotel price rise has now come back to 19 per cent on average when compared with last year. "Some of our competitors chose to undercut some of our prices," Mr Franklin said. "Consequently, we have been left with no other option than to reduce the price of those holidays affected."

Thomson, the market leader, produced its programme at much the same time as Horizon with cheaper prices at the peak times to the main Spanish resorts. Other rivals, such as Intasun and the British Airways subsidiary Enterprise, have both produced brochures recently, after having seen Horizon's prices.

Mr Franklin said: "We have repeatedly stated that we would not stand back and watch our competitors undercut us and take away our market share. We have the finances and the resources to

react, and that is what we have done."

Trade sources have been indicating that bookings for next summer generally are running around one third below the rate of a year ago. Mr Franklin confirmed that bookings had been sluggish, although he added that bookings for Greece were ahead of the December 1983 level.

"It is difficult to predict what is going to happen to the booking pattern. At the moment we are seeing people trading down, taking shorter holidays and there has been a further swing to self-catering."

Mr Franklin predicted a continuing move in the market towards the larger tour operators with well-known names. The CAA, meanwhile, has blamed some at least of the recent package tour problems on people seeking out the cheapest operator rather than the most reliable.

"If you always choose a bargain and take the cheapest then you accept a risk," said Mr Tom MacMillan, the CAA board member who is responsible for screening tour companies. "No one will prevent failures."

The authority is planning to give itself earlier warning of tour operator problems and raising the financial requirements for hundreds of operators to provide more cash for helping holidaymakers when companies fail.

It is proposing to increase the tour operator bond required from members of the Association of British Travel Agents (Abta) from 7 per cent to 10 per cent of projected turnover. This bond has to be lodged, or guaranteed by a third party such as a bank, to be used to rescue or reimburse clients if a company fails.

Until now Abta members, who form the majority of licence holders, have been given a 3 per cent discount on their bonding requirements, thanks to the co-operative system of mutual help in times of trouble run by the Association. If the new CAA rules go through - and the operators have until the end of January to protest - then each operator would, very roughly, have to find an additional guarantee of around £750,000 for every 100,000 passengers. This would be about £7.5m for Thomson and nearly £4m for Horizon.

For companies of such size and resources, guarantees are not hard to find, although a parent group (such as Thomson Organisation) cannot be the guarantor for a tour subsidiary. For independent operators, however, high premiums are often sought by banks or insurance companies for the bond backing.

The bond is the first line of defence in the event of tour operator collapse. The second line is the Air Travel Reserve Fund, which has about £12m but faces outstanding claims of £3m as a result of recent tour company failures.

The CAA has clearly been upset by recent criticism that it is not monitoring the tour operating companies closely enough. It is stressing that its first task is not one of financial control, although that is being improved.

"The system (of allocating licences) is based on the assumption that businesses and managers are honest and honourable and the certificates they issue can be relied upon," Mr MacMillan said.

The alternative of an investigatory inspectors was not a viable one. "A jack-boots police force able to go in at any time... I do not believe that is a concept that is acceptable in a free society," he said.

The CAA, however, does make additional calls on companies for greater financial backing before licences are granted and sometimes subjects licence holders to closer scrutiny.

Abta said last night that, while it felt there was a case for some increase in bonding, the CAA proposals were too sweeping and "will cause undue hardship to many smaller Abta operators."

## Regional Development Policy Statement

### West Midlands Intermediate Area.

**Intermediate Area Status.**

1.1 The recent announcement by Her Majesty's Government of an Intermediate Area (IA) in the West Midlands has significant benefits for the New Town of Telford.

**1.2 The new scheme will offer selective financial assistance to qualifying projects that create new jobs or safeguard existing ones.**

**Extension of benefits to the Service Businesses.**

1.3 Service industries - banks, insurance, laboratories and computer services amongst others - will now be eligible, joining most manufacturing processes which are already included.

**Additional financial assistance.**

1.4 Other benefits available to qualifying projects within the IA include:

- (a) Training grants for new personnel.
- (b) Access to loans from the European Investment Bank, as well as exchange risk grants and related benefits.

**The Telford Enterprise Zone.**

1.5 The benefits of the Enterprise Zone within Telford (i.e. 100% capital allowances, and no rates payable until 1994) are available in addition to the new selective financial assistance.

**Existing benefits.**

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1.7 In addition to direct financial benefits, Telford offers an attractive, well-developed environment.

1.8 The Telford Development Corporation offers businesses a high level of back-up and expertise, together with extremely competitive financial packages. For details, call the Commercial or Industrial Director now on 0952 613131.

Britain's non-oil trade gap widens

By Philip Stephens

THE SHARP deterioration in Britain's non-oil trade gap this year was confirmed yesterday in the latest official figures for the balance of payments, but the surplus on invisibles continues to outperform expectations.

The Central Statistical Office (CSO) said yesterday that Britain's current account deficit for the third quarter of 1984 is put at £32m, some £50m less than the last estimate made last month.

The change reflected an upward revision in Britain's estimated surplus from invisibles trade, which is now thought to be £1.1bn compared with an initial figure of £750m.

The CSO said the figures for invisibles were still liable to revision, but its estimates put the net credit on services at £1.3bn and net earnings on interest, profit and dividends at about £550m. This surplus was partly offset by net transfer payments overseas of nearly £750m.

For the current account as a whole the deficit for the first nine months of 1984 was £497m, with deficits in the second and third quarters wiping out the surplus recorded in the first.

The CSO said that the movement largely reflected the increased deficit on visible trade and in particular a large rise in non-oil imports. The visible trade gap widened to £1.5bn in the third quarter and if oil is excluded the deficit was £2.4bn.

The Treasury's latest forecast sees the current account in balance over the whole of 1984, which would imply a substantial surplus in the fourth quarter unless there are further revisions to the figures for the first nine months.

The CSO said that its statistics for the capital account remain incomplete but on an unadjusted basis they show a turnaround from an outflow of £1.4bn in the second quarter to an inflow of £1bn in the third.

Mrs Margaret Thatcher, Prime Minister, yesterday firmly rejected any loosening of control over public spending after the Government's decision to drop proposed increases in parental contributions to students' fees.

She said that she could find no way to avoid difficult spending decisions, and refused to urge the Chancellor of the Exchequer public expenditure.

There were jeers from Labour MPs as Mrs Thatcher said that the concessions on student grants had been "received very well indeed."

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Budgetary 'overkill', Page 9



# RAF trainer decision possible by Christmas

BY MICHAEL DONNE, AEROSPACE CORRESPONDENT

THE BATTLE for the Royal Air Force's (RAF) £200m order for a new basic training aircraft is now nearing its climax. A decision by ministers may be reached before Christmas.

The choice lies between four short-listed contenders - the Swiss Pilatus PC-9, backed by British Aerospace (BAe); the Brazilian Embraer Tucano, backed by Short Brothers; the Australian A-29, backed by Westland Aircraft; and the British-designed Firecracker, supported by a consortium called Hunting Firecracker Aircraft.

The struggle has been fierce, and the lobbying in recent weeks has reached an unprecedented level.

At stake is not only the initial order for 150 aircraft worth about £200m including spares, but also the subsequent support for the aircraft in service for over 20 years, which could bring the contract value to £500m or even more.

Export orders for the winner could also be substantial. Many overseas air forces are waiting to see which way the RAF moves before committing themselves.

Of the four contenders, three are foreign-designed aircraft. The Firecracker is the only British design involved. All four, however, use Canadian-built Pratt & Whitney turbo-prop engines.

But because all four are obliged to meet an exacting RAF specification, the final choice will not only involve performance characteristics, but other political factors such as the effect on aerospace employment and overseas trade.

Lobbying in recent weeks, therefore, has been based as much on the diplomatic and political benefits of buying one type or another, as on the technical merits of the aircraft involved.

The Ministry of Defence has already said that it wants to see as



Mr Michael Heseltine

much as possible of the value of the order remaining in the UK, through production of parts and final assembly in this country, and all the contestants have made arrangements for this.

Short Brothers, of Belfast, for example, has pledged that 100 per cent of the Tucano airframe would be built in Belfast, creating up to 2,000 new aerospace jobs there, and another 1,500 elsewhere in the UK with equipment suppliers.

The other foreign contestants have given similar pledges, with the Firecracker, being UK-designed, automatically being a wholly-UK based airframe production task. Thus, whoever wins the UK aerospace industry will be given a major boost.

It is this vigorously denied in the industry that if one of the three overseas designs is chosen, the UK taxpayers' money will be going to support a foreign aerospace industry.

In fact, any overseas designer whose product won the competition would get very little out of the UK itself as a result.

Foreign companies are so interested because of the prospects of "follow-on" sales from other countries. It is likely over the next few years that world-wide demand for basic trainers will amount to several thousand aircraft.

Many of these orders will go to whoever wins the RAF contract, because the RAF has a reputation for buying only the best. The UK partner will also share that business, which could amount to hundreds of aircraft worth many millions of pounds.

The overseas industries, and their governments, are also making it clear that, if the RAF buys their aircraft, there is the likelihood of further defence orders for the UK in return.

It is suggested, for example, but by no means guaranteed, that if the RAF selects the BAe/Pilatus PC-9, Switzerland may buy the BAe Hawk advanced trainer.

Alternatively, if the RAF selects the Shorts/Embraer Tucano, there could be defence orders for the UK from Brazil worth up to £150m a year.

It is inducements such as these, coupled with the political and financial as well as technical criteria, that the Government is now studying.

The RAF itself has made its recommendations to the MOD's Procurement Executive, and that organisation's recommendation will go to Mr Heseltine, Defence Secretary, within a few days. He, in turn, will have to discuss it with the Defence and Foreign Policy Committee of the Cabinet.

In view of the imminent absence of Mrs Margaret Thatcher, Prime Minister, in China, it is thought that a decision may be taken at next week's Cabinet meeting, although the whole affair could still be deferred until the new year.

# Channel link groups sign accord

BY ANDREW TAYLOR

A HUGE public flotation, rivaling the recent British Telecom issue in scale, might be used to finance a £4bn motorway and rail link across the Channel, Sir Nigel Brookes, chairman of Trafalgar House, the British shipping and construction group, said yesterday.

Sir Nigel was speaking in London at the signing of an accord between a consortium of British and French bankers and industrialists that formally launched a scheme to build a combination of bridges and tunnels spanning the Channel.

Members of Euroroute consortium include Trafalgar House, British Steel, British Shipbuilders and the construction companies John Howard and Fairclough Construction.

French members include Société Générale, Banque Paribas, GTM Entrepote, civil engineers and Chantiers de l'Atlantique, the nationalised shipbuilder.

Sir Nigel said he was confident the consortium would be able to arrange medium-term finance for the project. Ultimately, he envisaged that the scheme would be financed by a massive, possibly worldwide, flotation with shares in a Channel link company sold to "an eager investing public."

He said that the consortium would not be able to complete detailed funding arrangements until an Anglo-French working party reported on the financial and technical requirements both governments would need. The report is not expected until March.

The report was commissioned after a summit meeting between Mrs Margaret Thatcher, Prime Minister, and President Mitterrand in Avignon last week. Sir Nigel, who has taken over as chairman of Eu-



M Jean Pehuet, of GTM Entrepote, seated left, with Sir Nigel Brookes, of Trafalgar House after signing the accord yesterday. With them is M Christian Bazin, left, of Chantiers de l'Atlantique and Mr Ian MacGregor, original chairman of Euroroute UK.

roroute UK from Mr Ian MacGregor chairman of the National Coal Board, said he detected a more positive commitment to a Channel link from the British Government.

He believed that meant the Government would be in a position to choose by this summer which of the three basic proposals - a bridge, a tunnel or combination of both - it would support. He said none of the schemes would be able to start negotiating finance until the choice was made.

However, Mr Nicholas Ridley, Transport Secretary, has insisted that he will not make his choice until he is convinced that the necessary financial backing is available.

The British and French governments insist that any project must be entirely self-financing without government financial guarantees.

Sir Nigel said yesterday that a cross-Channel link would either happen very quickly or would not occur at all this century. He said Euroroute had so far spent about £1m preparing its proposals.

Mr MacGregor, one of the instigators of the Euroroute scheme when he was chairman of British Steel, said he would maintain his interest in the project. He said the road and rail option made much more sense than the twin-bore rail tunnel proposed by Euroroute's principal competitor.

# BR plans to end losses on Inter City

By Sue Cameron

BRITISH RAIL (BR) yesterday announced a five-year plan for turning an expected £88m loss in this financial year on its Inter City express services into a £5m profit by 1989.

The Government is determined to cut its passenger grant to state-owned BR from £837m to £635m by 1986-87. The new Inter City strategy is designed to help BR to meet this target.

BR said yesterday it was planning a three-pronged attack on its £88m deficit. Over the next five years it intends to:

- Redefine the Inter City network. That will mean handing over loss-making routes to BR's provincial services sector. Inter City will also take in some new profitable routes. The total improvement from "redefinition" is expected to be £25m over the period.

- Cut costs by £47m, especially by changes in maintenance and working practices. Inter City will be responsible for roughly a quarter of the 13,000 net job losses that British Rail is planning over the next five years.

- Boost Inter City income by £31m. An important element will be changes in the price structure. Inter City intends to bring in what it calls a more logical pricing system from May next year. It is forecasting a 4 per cent rise in passenger numbers as a result. There will be some fare increases.

Mr Cyril Bleasdale, director of Inter City, said it was planning several moves to attract businessmen. There were proposals to provide a pullman service to Liverpool and plans to improve stations and to open first-class passenger lounges at the big termini.

# Secret computer centre waits to handle a company crisis

BY LORNE BARLING

AT A SECRET location somewhere in Lancashire, north-west England, £5m worth of computer equipment is on standby. It is for use in emergency by some of Britain's largest insurance companies and other organisations that subscribe to a system called Fail-safe.

The companies pay up to £200,000 a year to have access to the IBM computer hardware which is available at four hours' notice in the event of a fire or any other disaster that disables their own equipment.

Fail-safe was set up a year ago by Istel - the part of BL that controls its computing operations - and Atlantic Computers, said to be the market leader in leasing IBM mainframe computers in Europe.

Since then, it has attracted about 20 subscribers, including Guardian Royal Exchange and Hambro Life. Most companies refuse to be named for security reasons, but Fail-safe says about 20 per cent of the UK insurance industry is participating.

Mr John Leighfield, managing director of Istel, said that with the increasing integration of business systems, risks of computer damage were becoming more and more apparent to data processing managers in industry and commerce. Senior management were not always responding to what they were told about the matter, and he urged them to consider the potentially disastrous consequences.

According to Istel, a study by

IBM has shown that the loss of a data processing centre will halt most corporate functions in a large company within days.

Financial functions are particularly vulnerable but activities such as re-ordering, manufacturing and distribution need equally to be protected against collapse," Istel said.

Statistics showed that 50 per cent of computer losses were through fire, 17 per cent through the theft of essential data files, 13 per cent through flooding, water or storm damage and the rest from other accidents, such as the loss of essential services.

The threat of terrorist action or sabotage by a disgruntled member of staff are also seen as real dangers, particularly with public utilities such as electricity.

Although most companies take great care to protect their computer installations, another survey has shown that 60 per cent of them have no contingency plans. Of 24 large organisations questioned, half had no formal back-up.

What emerged from the survey was that, if a disaster shuts down the computer operations of a large computer-dependent organisation, "there is a 95 per cent chance that it would not survive," Istel said.

The three main options in such circumstances were "cold," "warm," and "hot" restarts. The first involved ordering and installing a new computer, with vital time being

lost while it was fitted and matched to the original configuration.

A "warm" restart could be achieved where services were shared with a bureau and access by subscribers was guaranteed. However, the capacity of the back-up equipment might be limited and its compatibility over a period of time could not be guaranteed.

"A variation on this theme is the mutual back-up arrangement, in which two organisations with non-competing business interests agree to provide mutual back-up," Istel said.

The "hot" restart is what Fail-safe is offering: a duplicate back-up configuration with all hardware, telecommunications and other services ready for operation.

Fail-safe said it was committed to matching the hardware changes of subscriber companies, which, in turn, were encouraged to carry out regular tests to ensure minimum difficulty in the event of an emergency.

So far, no crises had occurred, but with the number of subscribers rising steadily, Fail-safe was having to consider the remote possibility of two happening at the same time.

Fail-safe is said to be the only fully dedicated system of its kind in Europe. Its parent companies see the investment as one with considerable potential, since corporate reliance on integrated systems is increasing rapidly.

# Government accused of budgetary 'overkill'

BY PHILIP STEPHENS

THE GOVERNMENT'S view that successive reductions in public borrowing are essential if inflation is to be kept on its downward path is challenged today by Simon & Coates.

A new study by the London broker's senior economist Mr Gavyn Davies argues that the Government may well have adopted a policy of "overkill" on its budgetary policy.

It suggests that, on the basis of the calculations used by the most stringent monetarists, the planned public sector borrowing requirement (PSBR) of £7bn for next year might be doubled without jeopardising the Government's anti-inflation strategy.

Mr Davies argues that there are a number of reasons why a looser

stance on the PSBR would be appropriate in the UK.

He questions the traditional argument that the benefit of a public sector stimulus to demand will quickly be offset by "crowding out" of private investment.

The central thesis of the study, however, is based on work undertaken by monetarist economists in the U.S., which, he says, have clarified the link between budget deficits and inflation targets.

The results show that, based on any realistic assumption of real interest rates and growth, the fiscal stance in the U.S. is clearly too lax.

For the UK, however, the same calculations indicate that much higher borrowing would be compatible with the Government's long-term aim of zero inflation.

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# Industry to have academic database

BY MARK MEREDITH, SCOTTISH CORRESPONDENT

A NATIONAL computer databank is to be set up for industry to log the range of academic expertise and industrial facilities at about 100 universities, polytechnics and government research institutions in Britain.

The £1m project, to be launched in the autumn of next year, has been formed by Cartermill Publishing in Scotland and is backed by the Longman publishing group with financial support from the Electra

investment trust and the Scottish Development Agency.

The databank, to be formed at St Andrews University in Fife, will list subscribers about 20,000 records such as the qualifications of academics, their papers and projects and the facilities at the institutions which might be useful to industry.

Two reports to the Government over the past two years have recommended better practical links be-

tween industry and academic institutions. A steering group set up by the University Directors of Industrial Liaison subsequently proposed a databank.

Universities, polytechnics and research agencies will fill out questionnaires which will then be filed by the editing board of the project, which in turn will be assisted by experts in various disciplines from St Andrews University.

# Treasury worries mount over cost of abolishing GLC

BY ROBIN PAULEY

ANXIETY is growing in the Treasury that one result of the abolition of the Greater London Council (GLC) might be an addition of at least £750m to public-sector borrowing.

Government officials are taking very seriously an analysis in detail of the effect on capital debt of abolition, work that the Government has so far not done. Mr Maurice Stonefoot, the GLC director general, has demonstrated that there will inevitably be a heavy impact on public borrowing through the dissolution of the council's capital fund.

The Government has been so unprepared by the discovery of such technical implications - which Mr Stonefoot has cautiously estimated at £750m over about five years, but which might run as high

as £1bn - that Environment Department officials have asked him for his urgent advice before the end of January.

Mr Stonefoot, who is president of the Chartered Institute of Public Finance and Accountancy, is highly regarded by the Government as one of the country's leading authorities on public-sector finance. At the time of his appointment as director general of the GLC in February, the Government wanted him to become Head of the Government Accountancy Service.

The Treasury is watching the situation particularly closely because it has been in error once before over assurances of savings from local government legislation. The Rates Act, empowering the Govern-

ment to limit council expenditure and rate rises, was supposed to bring council spending under control.

However, as a result of having to raise the targets of rate-capped councils substantially to make them realistically achievable, plus various promises made to Tory backbenchers about subsequent levels of rate support, the Treasury has been forced to cede an extra £300m for local authorities for 1985-86, which is not what it had in mind.

The difficulty arises because, for about a decade, successive administrations at the GLC have been pursuing a consistent policy of finding a rising proportion of capital expenditure through an internal capital fund.

3500 years ago the wisest man who ever lived made an observation of stunning simplicity. "There is nothing new under the sun," he said.

To be perfectly honest he should have added, "Except the price." As an example, look what's happened in the last 20 years to a few of the things it would be rather nice to look forward to.

A 5 bedroom farmhouse with a few acres in the home counties has gone from £12,000 to nearly £200,000.

An XKE Jaguar was £1,850. Its replacement, the XJS, will set you back around £20,000.

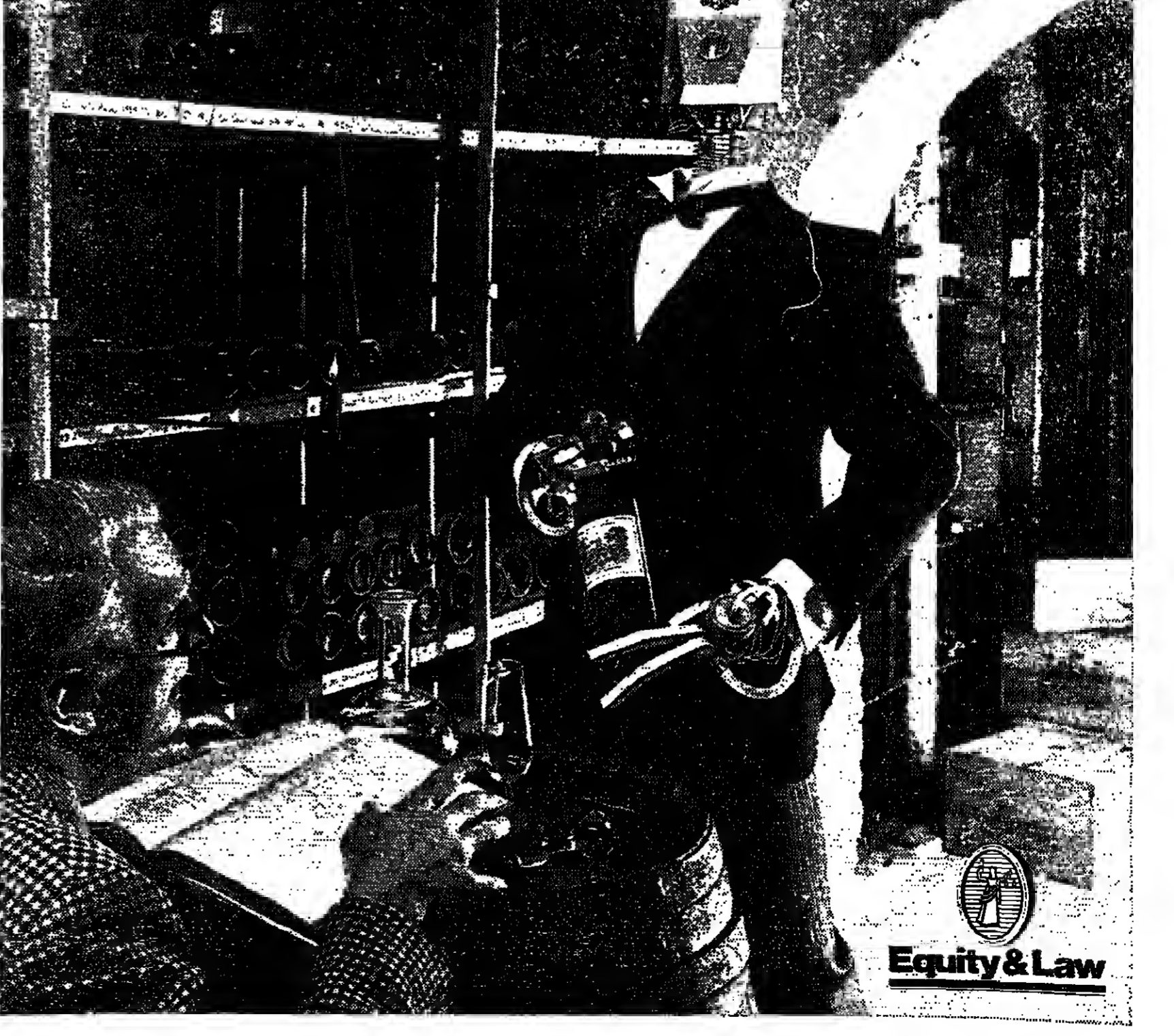
And the price of 61 Lafite has doubled 6 times from £3.50 to over £250 a bottle.

Very scary figures if you apply them to the next 20 years.

**"Whatever the future holds**

**I don't expect my**

**tastes will change much."**



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## BUSINESS LAW

## FT COMMERCIAL LAW REPORTS

## The cultural factor in price regulation

BY A. H. HERMANN, LEGAL CORRESPONDENT

TWO DISPUTES of great significance for the expansion of free movement of goods in the EEC are now ripe for resolution. The European Court has now heard the opinions of the Advocates-General in the *Centres Leclerc* cases<sup>1</sup> and judgments may be expected in the near future.

*Centres Leclerc* is a French chain store which caused a great stir by extending price-cutting to books and petrol. The French booksellers took *Leclerc* to court while the petrol station operators tied to the French oil companies did even more: they blocked the roads in an extrajudicial action which is getting increasingly popular in France where it has been used also against attempts to import Italian wine and British lamb.

The French courts referred these disputes to Luxembourg, asking whether the government-imposed system of retail price maintenance (RPM) for books and the governmental price control of petrol were compatible with EEC rules of competition and the principle of free circulation of goods.

In considering these questions the court has to give some thought to the treaty obligation of member states to "abstain from any measure which could jeopardise the attainment of the objectives of (the) treaty". Are member states absolved from this prohibition when they place cultural criteria above economic aims or when the application of EEC rules would lead to disturbances of traffic by discounted pressure groups? The French Government insists they are absolved in both cases.

Advocate-General Marco Darnmont agreed that in the case of books cultural considerations prevailed. But the road blocks were not found persuasive enough by Mr Advocate-General Pieter Verloren van

Themaat who dealt with the petrol case. French law<sup>2</sup> obliges publishers to fix the retail price of books from which booksellers may not grant a discount exceeding 5

**In the two disputes started by Centres Leclerc the European Court has been invited to condemn the French price regulation of petrol because it eliminates foreign competition, but to approve retail price maintenance on books**

per cent. In the case of imported books, the retail price is determined by the "principal importer" who deposits the book with the authorities. Other importers must not undercut him. The retail prices have to be maintained for at least two years but for not less than six months after last delivery or for nine months after books are sold by mail.

*Leclerc* was ordered by the court to discontinue cutting the published price. It appealed, arguing that the French legislation was overruled by Community law.

The European Court had already dealt with RPM on Dutch books across the Dutch-Belgian border and condemned it<sup>3</sup> but left open the question of RPM operated solely within national borders.

It was now invited by the Advocate-General to rule that the potential impairment of trade between member states was more than balanced by the cultural loss which would, in his view, follow from the removal of RPM. But he agreed with the Commission that the appointment of a sole, price-fixing importer could facilitate infringements of the EEC rules of competition.

If the court accepts these conclusions, European publishers will be left in peace and their view of active selling as somewhat *intra dig* will

be undisturbed. Often one has the feeling that it breaks their hearts to part with their books, although this is bad not only for business but also for culture.

There is a greater chance that the

court will see the light in the case of petrol. Here, the French authorities determine the retail price, taking into account several factors. But the only decisive one is the price charged by French refineries, which happens to be higher than the international market price. This prevents independent petrol stations supplied from abroad from competing, with lower retail prices, for a larger slice of the French market; the price regulation therefore, has the same effect as an import quota.

The French Government argues that this is justified by the need to keep down consumption of petrol (which sounds odd in the present glut), to assure a proper location of petrol stations, and to avoid "social disturbances" (such as blocking of roads by operators of petrol stations owned by French oil companies).

The Advocate-General dismissed all three arguments, the first two because they related to economic aims not exempted from the principle of free movement of goods by Article 38 of the Treaty, and the third because accepting it would open the door to the obstruction by pressure groups of all the fundamental freedoms guaranteed by the Treaty - the freedom of movement

of goods and workers, of services and of establishment.

The Advocate-General had a certain difficulty in reconciling his tough recommendation with the soft judgment, given by the court recently when the Irish Republic defended its legislation obliging petrol stations to buy a certain proportion of their supplies from domestic refineries at a higher price than they paid for imported petrol.

He distinguished the Irish and the French situation geographically: being an island, Ireland had a greater need for self-sufficiency. Also, the domestic market share of Irish refineries was only about a half of that delivered by French refineries. Finally, the Irish Government had to maintain domestic refinery capacity at a level enabling it to meet an emergency and to process crude oil for which the Government concluded long-term contracts.

The two opinions developed a seemingly harmless legal theory that the member states obligation - laid down in Article 5 of the Treaty - not to counteract EEC aims, operates differently in relation to a mixed regime of private and public measures (as in the case of books) and differently again in relation to government price control (as in the case of petrol).

In the first case, Mr van Themaat said Article 5 could gain direct effect through the operation of the competition rules of Articles 85 and 86; in the second case, only on the basis of Articles 30-36, protecting free movement of goods.

\* Case no. 229/83 (books) nrd 231/83 (petrol).  
† Treaty of Rome, Art. 5, par. 2.  
‡ No 81-766 of August 10, 1981.  
§ Joint cases 53 & 63/82, FT Business Law Brief, Feb 1984, P11.  
¶ Case 72/83 Campus Oil Ltd, see this column July 19 1984.

## Ship's managers incur liability by ignoring rise in yen

THE MAIRA

Court of Appeal (Lord Justice Lawton, Lord Justice Kerr and Lord Justice Browne-Wilkinson): December 5 1984

THE MANAGERS of a mortgaged ship who undertake to carry out their duties as quasi owners in the best interests of mortgagees and owners, have a duty to take relevant currency fluctuations into account when calculating the value for which the ship's insurance should be renewed.

The Court of Appeal so held when allowing an appeal by Pinos Shipping Co No 1, owners of the *Maira*, from Mr Justice Hobhouse's reversal of an arbitrator's award (1984) 1 Lloyd's Rep 660. The award, stated in the form of a special case, was that Glafai Shipping Co SA managers of the *Maira*, were in breach of a duty to insure the vessel for about \$12m.

LORD JUSTICE KERR giving the judgment of the court, said that the *Maira* was built in Japan. In 1977 the owners paid the builders 30 per cent of the purchase price. It was agreed that the remaining 70 per cent should be financed on mortgage.

On February 7 1977 first and second mortgages were executed for that purpose. The parties to the first mortgage were the owners and the builders. Payment of the balance was to be made by 14 promissory notes for ¥135m each, drawn by the owners in favour of the builders. That mortgage was assigned to a Japanese organisation.

The second mortgage was between the owners and the National Bank of Greece, which had guaranteed the first six of the owners' promissory notes. The total principal sum contingently secured was ¥996m.

The stated purpose of the second mortgage was to secure the repayment by the owners of all sums which the bank might be called on

to pay. It was to be subordinate to the first mortgage.

Both mortgages contained covenants by the owners to insure on hull and machinery.

The combined effect of the mortgages was that any failure to comply with the insurance obligations under the first mortgage constituted a default under the second mortgage. The policies were for the benefit of the assignees, the bank and the owners, in that order of priority.

The sums secured by the mortgages were in yen. Both mortgages, however, provided that the vessel was to be insured in U.S. dollars for the full insurable value of the vessel and in any event for not less than 13 per cent of the amount of the mortgages. The yen was appreciating against the dollar at all material times.

The owners insured the vessel for \$10m. That was sufficient to cover 130 per cent of the amount outstanding under the first mortgage.

The owners failed to meet the first of their promissory notes, and it was paid by the bank. That constituted a default under the second mortgage. The bank decided not to foreclose, but to arrange for management of the vessel.

All powers of control and management were taken away from the owners by a tripartite management agreement, concluded on September 6 1977, between managers, the bank and the owners.

By clause 1 of the agreement, the owners appointed the managers to "act as quasi owners", by clause 2, the managers undertook to manage "in the best interests of the owner and the bank", and by clause 3(g) they had a duty to place all hull and machinery protection "in accordance with the respective insurance clauses of the mortgage in favour of the bank".

On April 1 1978 the managers renewed the insurance for the following year, again in the sum of \$10m. By then the yen had appreciated to such an extent that about \$12m would have been required to cover 130 per cent of the liabilities outstanding under the first and second mortgages.

On April 10 1978 the vessel sank and became a total loss. The owners claimed *inter alia* \$1,911,881, alleging that the managers had failed to comply with their obligations by failing to insure the vessel for about \$12m.

The arbitrator decided that claim in favour of the owners. He concluded that, bearing in mind the managers' duties to "act as quasi-owners" and "in the best interests of the owners and the bank", they were under a duty to insure the *Maira* for about \$12m. The judge reversed.

The managers had contended that their obligation as to insurance were fulfilled so long as the insur-

ance complied with the second mortgage alone. The \$10m was sufficient for that purpose.

Both the arbitrator and the judge rightly concluded that on the construction of the management agreement as a whole, the managers were under a wider duty to comply with the insurance obligations under the first mortgage as well as the specific duty in relation to the second mortgage under clause 3(g).

Any other construction would clearly defeat the commercial intention of the management agreement read together with both mortgages. It imposed a duty on the managers to protect the interests both of the bank and the owners, and neither had any protection against the prior rights of the assignees unless the obligations under the first mortgage were complied with.

The commercial purpose was plain. There was no intention or requirement to effect any separate, let alone cumulative, insurance under the second mortgage.

Only one policy on hull and machinery was envisaged and required. Otherwise, if 130 per cent of the total amounts due under both mortgages had been less than the "full insurable value of the vessel", it would have had to have been insured for double its value, which would be absurd.

Since the arbitrator did not err in law in concluding that the managers were bound to comply with the owners' obligations under both mortgages, and did not misconstrue their combined effect, the consequence that the vessel should have been insured for \$12m was a matter for him to decide on the facts.

By April 1 1978 when the equivalent cost had risen to \$12m the managers should have reviewed the cover accordingly. That was the arbitrator's reasoning and it could not be faulted.

The judge concluded that "130 per cent of the total amount secured by this mortgage" in the second mortgage, required insurance cover for the dollar equivalent of the whole contingent liability of 996m yen under the second mortgage.

That was fallacious. Given the co-existing insurance under the first mortgage, that construction would require a substantial measure of double insurance. Also it failed to take account of the purpose of the second mortgage, which was to secure the repayment sums which the bank "may be called upon to pay and shall pay".

The total amount secured by the second mortgage was therefore limited to 130 per cent of the amounts due and outstanding when the vessel's insurance fell to be renewed.

The judge said that a proper indemnity would be limited to "the full insurable value of the vessel" and that an insurance for 130 per cent of the outstanding mortgage li-

ability was not hull and machinery insurance, but an "insurance of liabilities".

He appeared to have been shocked by the difference between the vessel's reduced market value by 1978 and the extent of the insurance obligations.

That difference was irrelevant. Renewals of hull and machinery policies frequently substantially exceeded the vessel's market value. If the insured value had been properly negated the character of the insurance remained "on hull and machinery".

The judge appeared to have concluded that the renewal for \$10m complied with the owners' obligations under both mortgages because it was sufficient to cover the outstanding liabilities under each of them severally, though not under both of them.

That did not provide an answer to the owners' claim. If a person were to deposit £1,000 in a specified account to cover one liability, and then made an identical agreement to cover another, £1,000 in the account would not satisfy both obligations.

The managers' renewal of the insurance in the sum of \$10m could not therefore be treated as compliance with their obligations under the first and second mortgages.

The arbitrator's conclusion that it was managers' duty to insure the vessel for \$12m was correct.

The managers submitted that they were exempted from liability by a clause in the management agreement which provided that they should not be under any liability for loss arising out of "any error of judgment".

The arbitrator rejected that submission. The judge, on the managers' notice of motion to remit the award on that and other grounds, rightly agreed with the arbitrator.

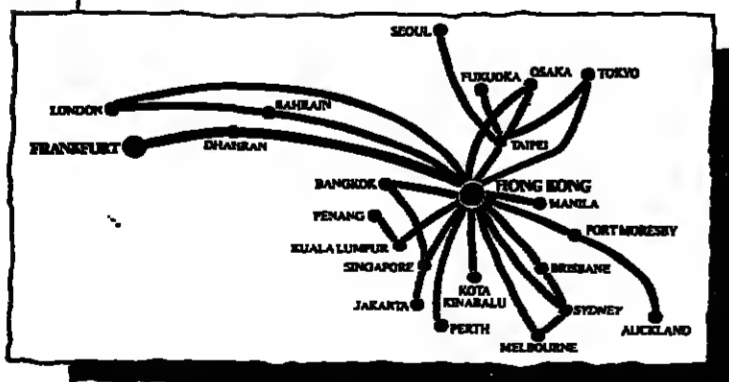
A *bona fide* misinterpretation of complex contractual provisions could in some circumstances constitute an error of judgment. There was nothing of the kind here. There was nothing to suggest the managers ever addressed their minds to the question of increase in the value of the yen.

In these circumstances they could not rely on the exemption clause. An appeal by the managers on that point was dismissed. An appeal by the owners from the judge's decision that the management agreement was frustrated by loss of the vessel was also dismissed.

For the managers: Mark Saville QC and Simon Gault (Holman Fenwick & Willan).  
For the owners: Adrian Hamilton QC and Simon Crookenden (Elborne Mitchell & Co).

By Rachel Davies  
Barrister

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## Third World 'should not bear all sacrifices of debt crisis'

BY DAVID LASCELLES

THE INTERNATIONAL debt crisis cannot be treated as a narrow banking problem, or one where the IMF and the major countries write the ground rules while developing countries make all the sacrifices, Sir Geoffrey Howe, the British Foreign Secretary told the FT World Banking conference in London yesterday.

Debtor nations will only undergo their painful economic adjustment if they see signs that the industrialised countries are keeping their side of the bargain which includes:

- Promoting growth and spreading its benefits;
- Reducing the burden of high interest rates;
- Maintaining an effective dialogue.

Mr Roy Jenkins, former president of the European Commission, believed there was no prospect of major alleviation of the debt problem in the next few years and called for a co-ordinated effort to stretch repayments out over 30 years and reduce interest rates.

Creditor governments must pursue responsible growth policies and resist protectionism to create a long-term solution to the debt issue. Debtor nations, however, must also adopt orthodox monetary and fiscal policies and banks must remain "wholeheartedly" involved, even if their shareholders have to pay the price, said Prof Brian Griffiths, dean of the City University Business School in London.

Dr Erik Hoffmeyer, chairman of the Danish National Bank, said an

FINANCIAL TIMES  
WORLD BANKING CONFERENCE

ideal solution would involve giving debtor countries "tax relief" on their interest payments. But since this was impractical he expected the world to muddle through, though there was always the danger of widespread debtor default.

Mr Bas Dyle, Labour Minister of the Philippines, said debtor countries would have to raise their "thresholds of pain" to the utmost as they undergo adjustment or until new approaches to the debt problem are found. He warned of the dangers of political unrest, and called for a wider debate about policies in the countries affected.

Debtor countries will have to take a new approach to development in the years ahead to bring their current account positions into alignment with reduced financing from abroad, Mr Rodolfo Silva, department manager of the Inter-American Development Bank, said. He stressed the importance of internal savings and exports for an economic development pattern sustainable in the long term.

The present high level of U.S. interest rates is not due to the large

budget deficit, but the fact that investors are "locked in" to assets they previously bought as a hedge against inflation. Mr John Rudelege, Chairman of the Claremont Economics Institute said.

It could be many years before they can switch into monetary assets and help bring interest rates down and meanwhile the dollar was likely to remain at high levels.

The recent banking crises in the U.S. had prompted bank supervisors to take a broader view of banks, according to Mr Joe Selby, senior deputy comptroller, in the U.S. government. Instead of just examining banks periodically, they now intend to keep them under constant supervision.

The recent nationalisation of the French banks had not led to any drastic upheavals, Mr Jean Delfieux, chairman of Credit Lyonnais, said. But bankers today have similar fears to industrialists being confronted by greater risks and having to launch new products and back them with appropriate investments.

Giving the view of a small country central banker, Dr Courtney Blackman of Barbados said even a partially successful attempt at a generalised approach to the debt problem would help the two worst affected economies in the region, Guyana and Jamaica, and give a boost to regional trade.

"This would do more for the financial outlook of the remainder of us than any other likely development in the world of international finance," he said.

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# TECHNOLOGY

EDITED BY ALAN CANE

CIRCUIT BOARDS FUNDAMENTAL TO ALL ELECTRONIC GOODS ARE FACING CHANGE

## Why components are coming to the surface

BY GEOFFREY CHARLISH

A BASIC change in the way components are assembled on printed circuit boards seems set to affect every segment of electronics manufacturing, from telephone exchanges to the home computer.

The technique, called surface mounting, is already in use in Japan for consumer electronics, and in the U.S. General Motors is a major user for car systems like radars. In the UK, GEC, Plessey, Racal, STC and others are planning products, initially

Surface mounted components cost 1.2 to 1.5 times as much as conventional components, but only because high volume production has not been reached.

in telecoms, that will be smaller, lighter, more reliable and cheaper to make. Many believe 1985 will be the year in which numerous pilot projects become production lines.

Normally, holes are drilled and the wire leads or legs of the components are pushed through and flow-soldered to copper pads, which are part of the wiring track pattern on the

other side of the board. Surface mounting (SM), uses components manufactured with pads or tabs on their undersides or edges and these are soldered directly to the circuit pads.

This apparently simple change is having far-reaching effects in terms of size, cost and reliability.

For example, the legs protruding from integrated circuits (there can be 40 or more) are traditionally spaced by 0.1 inch and have to be robust enough for automatic insertion. So although the semiconductor chip itself may only be 0.25 inch square, the final package might be 2.0 x 0.5 inch, simply to accommodate the two rows of legs.

Automated surface placement is a relatively gentle process. It allows semiconductor packages of half the size with smaller connection tabs spaced by only 0.06 inch. In addition, space is no longer taken by leads protruding from the ends of resistors and capacitors.

The board, in some cases, can be reduced to a quarter the conventional size and the weight goes down.

At the moment, surface mounted devices cost 1.2 to 1.5 times as much as conventional components, but only because high volume production has not yet been reached. No lead bending or cropping is needed however, and the assembly pro-

cess is inherently faster and cheaper.

Dr Alex Stark, Mullard's SM expert, thinks SM board costs are about to drop below conventional costs.

But he thinks the greater integrity and reliability of surface mounting is probably more significant. For example, there are no wire leads, which can vibrate and fatigue in some applications and can be electrically unsatisfactory due to their inductance.

The number of plated-through holes is reduced and the number of interconnections can be cut down. Boards are thinner overall, and fewer are needed.

The components are fed into placement machines from plastic film encapsulated reels, protecting them up to the moment of assembly. Above all, the placement and soldering processes in surface mounting are, says Stark, ten times more reliable.

In 1980, some 40 per cent of components were being inserted into conventional boards by machine, the rest manually. By 1985 Dr Stark believes 30 per cent will be auto-placed for surface mounting, while 50 per cent will be machine inserted. But by 1990, the respective figures will be 50 per cent and 40 per cent.

Development has been quicker in Japan, where some 20 per cent of components are believed

to be made in SM form, most going into consumer products. In the U.S. the figure is 5 to 10 per cent and Europe two to three.

In the U.S. Delec (General Motors) has fully embraced the technology and is believed to be consuming several million SM components daily.

There are probably only a few dozen S<sup>2</sup> board designs in production in the UK and secretly abroad. But STC for example, uses it in a pager and in the Viscount display phone.

A production unit has started up at Racal Microelectronic Systems in Reading, but the company refuses to say how many designs are in production.

One of the UK's biggest sub-contract board makers, AB Microelectronics of Giamorgan, is already making over 3,000 surface mounted boards a week in three or four designs. They are all going into consumer products, but managing director Dr B. U. Heap will not name names. He predicts that next year, such circuits will account for over 25 per cent of production and believes this will eventually reach 70 to 80 per cent.

In GEC, the Marconi Research Centre at Baddow is actively investigating surface mounting, and the technique is applied to military products. GEC Telecommunications has deployed a few boards on a trial basis, and Marconi Electronic Devices

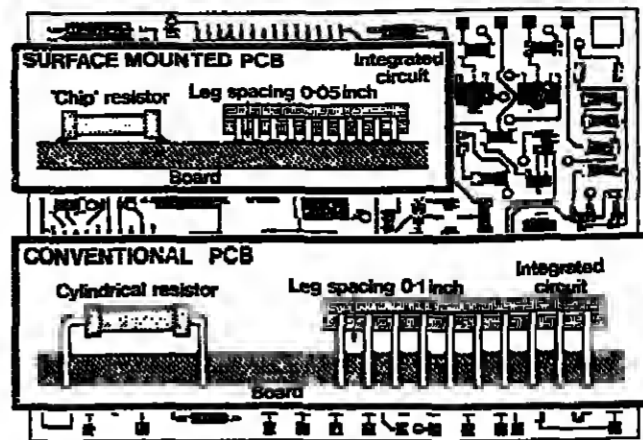
offers TM components. Although Peter Du Feu, a manufacturing specialist in the FAST (factory automation systems) project at Rugby believes there are still some problems with SM, including board testing, he thinks 1985 will be "take off" year for SM.

Development has been quicker in Japan, where some 20 per cent of components are believed to be surface mounted

Plessey is closely studying surface mounting, particularly for digital communications circuits. It offers components for radar and radio equipment.

The computer industry is also on the verge. ICL for example, has a pilot facility at Kidsgrove, has one small board in production, and expects to be making boards with 200 to 300 components, entirely in SM, late in 1985.

At Marconi Secure Radio Systems at Hill End near Dunfermlin in Scotland, two boards will be going into production early in 1985 for the Scimitar and Minstrel hand-held armed forces communications sets the company is manufacturing as a private venture.



### How surface mounting works

SURFACE mounting emerged 20 years ago with hybrid circuits, in which thick film resistors were fired on to ceramic substrates and other components were added. It is an alternative to integration on silicon for low volume or special environment applications.

Later, surface-mounted leadless chip carriers cut the space occupied by ICs and reduced PCB costs.

Some 20 machine makers have emerged to surface-mount components — the MPS500 from Emhart Dyna Pert Precima in Colchester, for example, is widely used.

The final development is the total conversion of the PCB to SM. Siemens and Mellard/Philips, among others, offer both placement equipment and SM components — one Philips

machine can place 0.5m components an hour.

Many machines place a few thousand components an hour and might cost between £40,000 and £130,000. Top end machines can place components 32 at a time. Machines can be software controlled for moderate runs of many types of board, or hardware controlled for high volume production of a few types.

Mixed boards will be common until all components are available in SM form. In production, the pad areas are screen printed with solder paste, the components placed and the board heated (with infra-red for example) to solder the joints. Then, conventional components are auto-inserted from the top and the board is wave soldered underneath.

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**Silicon Large wafers**

IBM HAS succeeded in pulling experimental eight-inch diameter silicon crystals at its East Fishkill, New York site.

Five-inch wafers, commonly used in the semiconductor industry, can accommodate about 850 chip sites. The experimental eight-inch wafers derived by slicing and polishing the bigger crystal each have space for 2,000 chips. Since the manufacturing processes are similar whatever the size, an increase can be expected in productivity and a reduction in the overall cost per chip.

One of the company's advanced semiconductor and packaging sites, East Fishkill houses the industry's biggest crystal pullers.

The diameter of the crystal is the result of careful control of both the temperature of the molten silicon from which the crystal is pulled, and the speed of pulling. The process takes about 24 hours and IBM is using its own Advanced Control System for process control.

### JAPANESE SUBMARINES

## 3km under the sea

ENGINEERS in Japan plan to develop by 1986 a remote-controlled submarine vehicle that will travel up to 3 km below the sea surface.

The Dolphin-SK under construction at the Japan Marine Science and Technology Centre in Yokosuka, could play a part in any exploitation of undersea minerals that takes place in the late 1980s. It will have a mechanical hand with which the machine could take samples of metal-rich nodules that litter the bottom of parts of the Pacific Ocean.

The device will have a rudimentary ability to visualise its surroundings with TV cameras. It will avoid obstacles with sonic sensors linked to a computer.

Dolphin will be a development of several items of submarine hardware devised at the marine centre since 1978 but will operate at greater depths. The device will be shaped like a large crate about 3 metres long. An operator on a ship will send commands to the

vehicle via an optical fibre cable. Information from the sea bed, for example picture signals from a TV camera, will be sent to the surface by the same route.

Small thrusters, powered by a hydraulic unit, will propel the vehicle. In other developments, workers in Yokosuka plan to develop an undersea machine that will work independently of commands from the surface. They are also working on a machine that would operate at 9 km under the surface.

In previous work, the researchers have built small vehicles known as JUV-1 and JUV-2 that swim 200 metres under the wave tops. These have been used in offshore work, for example to find out the depth of seas around Antarctica.

The marine centre has developed a deeper version of these vehicles called Mosquito and is working on yet another craft, christened Hornet, that will send information to the surface from a depth of 500 metres.

PETER MARSH

### COMPUTER SYSTEMS

## Machines that give professional advice

ICL AND Systems Designers International (SDI) have jointly spent £5m developing a knowledge-based computing system which will be marketed respectively as Adviser and Envisage.

The idea of the system is to capture not just the facts, but the experience and judgement of experts, so that others can solve problems and be given advice on a screen and keyboard terminal.

Adviser is not an "expert" system in the sense that it encapsulates, say, a doctor's or an engineer's professional know-

ledge, but is more concerned with allowing clerical, sales and administrative staffs to call up appropriate specialised knowledge to do their jobs quicker or better.

Guidance in the use of complex administrative regulations is a good example, or help in making the best choice of a product or service when answering customers' telephone inquiries.

The system has been designed to allow the specialists in a company to design applications themselves, often without the help of computer personnel. It is a "shell" software system

that allows applications to be formulated in many different fields. It contains both reasoning and deductive abilities.

According to Asa Lamum, Director of Applied Systems at ICL: "Within five years, computer systems will have to incorporate knowledge to aid their sale and use if they are to be successfully marketed." He claims that very soon, knowledge based systems will be critical to the survival of companies that trade on the quality and competitiveness of products and services.

Lamum believes the world market value of knowledge based solutions will grow from \$40m out of the present total of \$10bn for software and services, to \$10bn out of \$60bn within the next ten years.

The ICL Adviser runs on the company's VME/2900 computers, while Envisage runs on DEC VAX machines. ICL will be offering the system on smaller machines from mid-1985. It costs from £15,000.

ICL has already embarked on some interesting applications, although customer names are not forthcoming. For example, it has helped develop a system which puts some of the interviewing expertise of a personal manager into the hands of the departmental manager who has to interview candidates for a job in his department. ICL is on 01-788 7272, and Systems Designers on 0276 62244.

GEOFFREY CHARLISH



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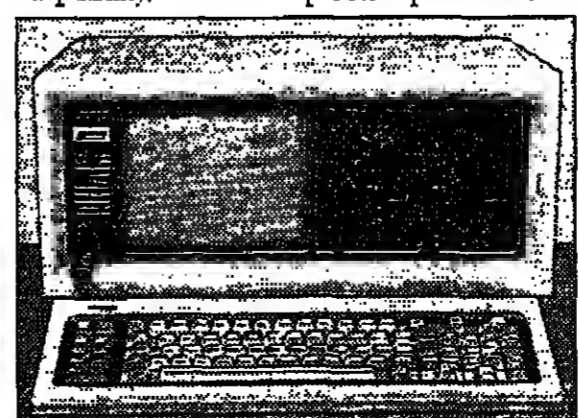
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THE MANAGEMENT PAGE

EDITED BY CHRISTOPHER LORENZ

# Dow discovers 'corporate entrepreneurship'

Christopher Lorenz explains how the U.S. chemicals giant is learning how to speed up new product and market development

WHEN Paul Orefice, the energetic president of Dow Chemical, declared three years ago that by 1987 half the company's earnings would consistently be coming from "specialty" products, outsiders reacted with a cynical smile.

There was yet another chief executive with grandiose ideas about moving away from low-margin commodity products into high-return businesses, but with little understanding of how long it takes for a large company to diversify so radically—*if, indeed, it can make the transformation at all.*

Many people within Dow had been just as sceptical in 1978, when the objective was first formulated. At that time specialities accounted for less than a quarter of the company's profits.

Yet over the past few months it has emerged that the Michigan-based multinational, which with sales of \$12bn is America's second largest chemical company after du Pont, is well on its way to achieving its goal. After a decade of stagnation, new products are starting to flood through its veins.

In the financial year which ends this month there has been a surge in its basic chemicals business after several years of recession, yet about 40 per cent of its earnings will be accounted for by specialities—such things as a new bathroom cleaner called Tough Act, polystyrene labels for domestic bottles, and building materials coated with plastic foam.

Dow's ability to execute this dramatic change in direction owes a certain amount to a spate of diversifications of commodity chemical businesses all over the world, from the U.S. to Japan. It has also been aided by a few major acquisitions, notably the ethical drugs business of Richardson-Merrell in 1981. After the \$250m purchase of Morton Thiokol's Texize specialty division last month, other takeovers may be on the way, to judge from Orefice's public statements.

But the most fundamental factor for the future of the company is Dow's apparent discovery of a magic formula for which large companies throughout the industrialised world are desperately groping: the ability to shake up established corporate cultures and bureaucracies, with their crippling disdain for risk-taking and their worship of

size. Only then, as Dow is beginning to demonstrate, can they seize far more new product opportunities and turn them into billion dollar money-spinners, or—a newly acceptable goal for a multinational into profitable collections of medium-sized businesses.

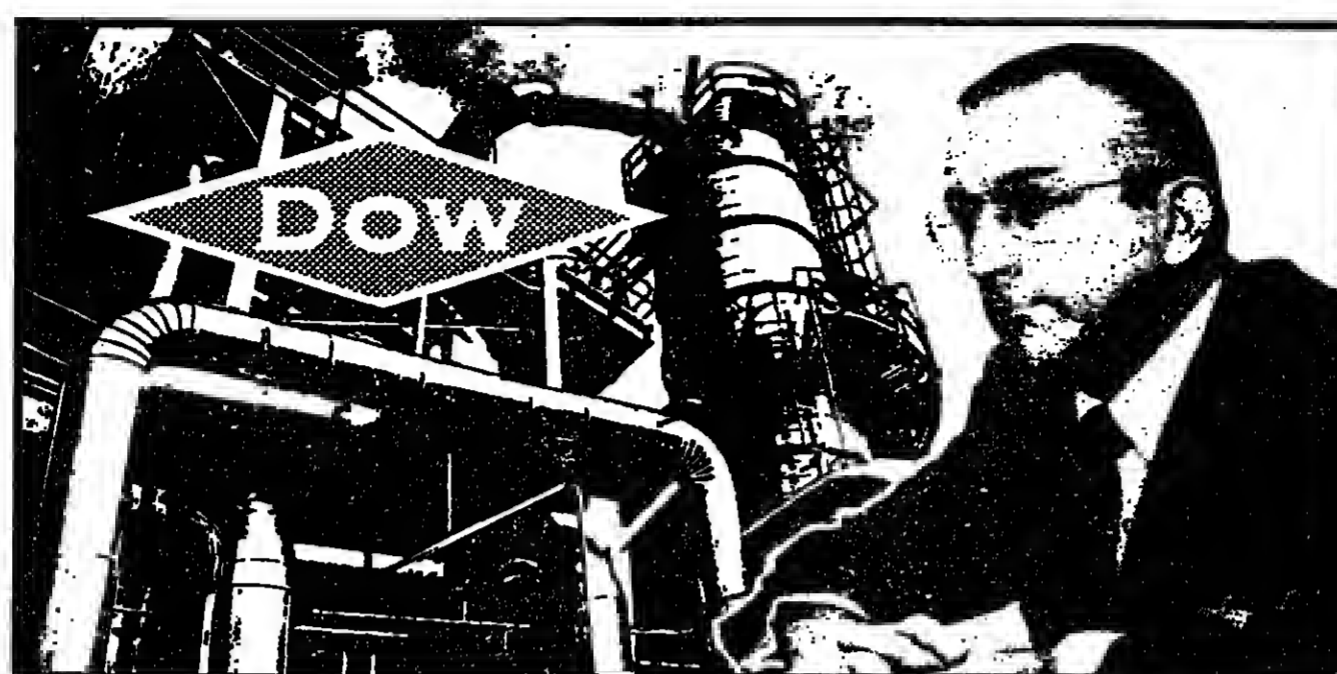
The key to Dow's move towards what has been dubbed "corporate entrepreneurship" (or "intrapreneurship," as some purists insist on calling it) has been its rejection of the most common yet ineffective method of internal corporate diversification: the creation of a special "new venture group" to develop and nurture a portfolio of innovative projects while the rest of the organisation plods on unchanged.

Such a strategy almost invariably founders on transparent problems: the venture group's new projects, or the group itself, are rejected by the prevailing corporate culture. After several years of frustration and disappointment, the group dies quietly, forgotten in a corner (see "All too easy to stifle it to death," this page, March 30).

Instead, Dow has chosen a much more ambitious and difficult route: to try and change the attitudes of managers throughout the organisation—the company's very "culture," in other words—to such an extent that each unit becomes its own cultivator of new ventures. A small corporate new ventures staff has a vital part to play, but mainly as a device to spark the process of change.

"The magic is not to relieve the rest of the organisation from the need to spawn new ventures, but precisely the reverse—to get everyone to do it," says Bill Fletcher, the first of Dow's U.S. new ventures unit (he recently retired). Confining the task to a new venture group "is a sure way to failure," he insists.

For the company so late into the specialty market place—Dow's basic business has always been the supply of bulk chemicals to other chemical companies—this strategy was a particular challenge. Setting the shift in motion has required much more than just a systematic and persistent top management campaign to focus everyone's attention on the "profit gap" created by the chemical industry's slowdown from its traditional annual growth rate of 7 per cent, and



Paul Orefice trying to create an organisation that is as flexible as a collection of small companies

to publicise the consequent importance of getting more deeply into specialities.

As Andrew Butler, commercial vice-president of Dow U.S.A., points out, "it takes a long time for that sort of objective to become really rooted among operational people." So top management needs to signal its commitment with actions, not just with words. "The corporate body language has to be consistent," as Butler puts it.

Dow's drive for diversification—a term which it confusingly often uses to mean "innovation"—certainly involves all sorts of corporate body language, in the form of action at the top of the body, as well as lower down.

It has formally revised its corporate strategy, with "downstreaming" towards the ultimate consumer now a prime goal. Dow is no longer bashful about competing with its customers, says Frank Popoff, president of Dow Europe: "I won't abdicate any market to anyone."

It has restructured itself at various levels into smaller units, so as to improve managerial motivation, to encourage

research and marketing to become more focused, and to foster closer collaboration between marketing and product development.

The changes include a belated split last year in Dow's commercial organisation in the U.S.: this now consists of three commodity departments (plastics, organics, and inorganics, all of them equivalent to "divisions" in many other companies); and three industrial specialities (urethanes, coatings and resins, and specialty resins and fabricated products). The consumer products group was already separate, as were pharmaceuticals and agrochemicals.

Butler, the prime mover behind the split, says it was needed "to allow two very different sorts of businesses to be managed differently. One requires very careful management, the other a bounding, jumping, leaping type of approach. The change was necessary in order to give both cultures the chance to flourish."

There have also been structural changes at much lower levels of the organisation, for

example in the establishment of more precisely focused multidisciplinary "business teams" of technical, production and marketing staff.

There has been a shift of R and D projects, funding and staffing away from the refinement of existing chemical processes towards the development of more product applications, as well as towards work on new specialties. At the same time R and D spending has been increased, from \$232m in 1978 to \$500m in 1983.

Large batches of young development chemists and engineers with special skills have been recruited.

On selected projects, special reporting structures have been created which bypass up to two levels of management.

Ancillary measures have been taken to speed the flow of products into the marketplace, including the creation of avenues for funding and supporting early product development outside the normal departmental structure where necessary. This has been one of the roles played by Dow's corporate new ventures unit in

the U.S. (its "innovation development department") and by its European counterpart (the "diversification department").

"Discovery research and development" functions have also been established.

Various steps have been taken to galvanise the commercial side of the organisation into acting as market development managers rather than as mere salespeople. Jack Flynn, Fletcher's successor as innovation development director, describes this as "searching for needs, not just for orders," and claims that "what each unit knows about its markets is far more than just a couple of years ago."

In the specialty departments, commercial responsibility has been pushed down from a committee structure to a new level of individual directors, who have been given unusually high growth targets.

In order to improve the company's reach into the specialty marketplace, there has been a marked restructuring of the sales organisation into specialised units with narrower product lines, and much more

highly qualified technical sales staff.

On both the technical and commercial sides of the organisation, there has been a careful appointment of unit managers with a record of unusual drive and resourcefulness. This is in sharp contrast from previous policy, where responsibility for new products tended, as in many companies, to be given either to inexperienced young managers, or to older people who had failed to make the grade into management of one of the major product groups.

"Future awards" have been established for projects that quickly reach a profitable turnover of \$1m.

Several small "beachhead" acquisitions have been made, in order to gain access to new technology and new markets. These include the setting-up of a number of joint ventures with small companies in several countries, including Canada, Italy and Switzerland.

Just about the only obvious measure which has not so far been taken is a formal change in the performance appraisal and incentives process for individual managers, so that they are more clearly rewarded for doing risky new things, rather than for short-term performance.

Andrew Butler sees the beginnings of a change in the way the existing appraisal and rewards procedures are applied, in that quite a number of unit bosses are starting to encourage innovation and to tolerate failure. "If you don't have any failures, you're not doing enough," he emphasises. "You must always crucify a guy because he fails."

The complexities of introducing a more systematic approach to rewarding entrepreneurship are daunting, but Butler says exploratory investigations into possible processes are being made. Several of Dow's senior managers certainly think something of the kind will definitely prove necessary to reinforce the future success of the company's "innovation department" of creating "an organisation that allows Dow to act as a small company."

A further article on this page shortly will examine the progress being made towards this objective within Dow Europe, where the maverick head of the "diversification department" has succeeded in championing a remarkably rapid change.

## Management abstracts

Behavioural medicine. A. Cott and J. Glantz in *Business Quarterly* (Canada), Summer 84 (84 pages, tables)

Describes, with a case example at St. Joseph's Hospital in Hamilton, Ontario, an approach to patient absences which separates medical from motivational factors and presents employees with remedial action on an "improve or leave" basis, claiming rapid payback due to improved performance and reduced absence.

Keeping audiences awake. K. Clayton in *Audio Visual* (UK), Sept 84 (24 pages, illus.)

The former launch manager for EIC Care lays down dos and don'ts for audio-visual programme-making; covers creativity, visual clichés, buying hardware, programme length, voice quality.

How to avoid business blunders abroad. D. A. Ricks in *Business* (U.S.), April/June 84 (84 pages)

Presents a host of examples of disastrous product launches abroad—in most cases naming both product and company; describes various gaffes that caused offence or created misunderstanding, with failure to sell as the consequence; demonstrates how domestic promotional strategies can be unworkable overseas, and suggests lines of research essential/debatable before attempts are made to penetrate foreign markets.

More complaints from satisfied customers. U. Hansen and others quoted in *Abstraktwirtschaft* (Fed Rep of Germany), September 1984 (3 pages, in German, English version available)

Summarises a seminar on the subject of customer complaints which should be encouraged rather than minimised. Various German and U.S. investigations are cited to make the point that manufacturers/traders stand to gain from paying attention to complaints and dealing with them in a manner that will, if anything, increase customer loyalty to products. There is a separate account of the complaints policy of Braun AG, the client of the seminar, whose customer relations department reports direct to top management.

These abstracts are condensed from the abstracting journals published by *Abstrakt Management*. Complete copies of the original articles may be obtained at £3 each (including VAT and p+p; cash with order) from ABAR, PO Box 27, Wembley, HA9 8DA.

## The Battle of the Blues

The Oxford/Cambridge Varsity Match is always eagerly awaited as one of the year's most stimulating contests, and once again Bowring's sponsorship brings this great event to Twickenham. Whose hands on the Bowling Bowl this time? Bowring's support reflects its own attitude towards business, with leadership in insurance and reinsurance underlined by team performance achieving clearly defined objectives.

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# THE VARSITY MATCH

TWICKENHAM  
2.15pm Tuesday 11th December

## Company Notices

### ANGLO AMERICAN CORPORATION OF SOUTH AFRICA LIMITED

(Incorporated in the Republic of South Africa)  
NOTICE TO HOLDERS OF ORDINARY SHARE WARRANTS TO BEARER  
PAYMENT OF DIVIDEND

With reference to the notice of declaration of dividend advertised in the press on 30th November 1984, the following information is published for the guidance of holders of share warrants to bearer:

The dividend of 35 cents per share was declared in South Africa currency, South Africa non-resident shareholders' tax at 4.845815 cents per share will be deducted from the dividend payable in respect of all share warrants bearing leaving a net dividend of 30.054185 cents per share.

The dividend on bearer share warrants will be paid on or after 26th January 1985 subject to the provisions of clause No. 102 attached from share warrants to bearer as under:

- At the office of the following continental paying agents:
  - Crédit Lyonnais, 1000 Brussels, 75009 Paris.
  - Société Générale de Banque, 24 Avenue Mirza, 1000 Brussels.
  - Société Générale de Banque, 5 Miquette de Paris, 1000 Brussels.
  - Swiss Bank Corporation, 1 Ankerstrasse, 8001 Zurich.
  - Ufa Bank of Switzerland, 2 Boulevard Royal, Luxembourg.
  - Banque Internationale à Luxembourg S.A., 2 Boulevard Royal, Luxembourg.
  - Banque Generale de Luxembourg S.A., 14 rue d'Alger, 1118 Luxembourg.

Provision in respect of coupons lodged at the office of a continental paying agent will be made in South Africa currency to an authorised dealer in holders of share warrants to bearer in the Republic of South Africa, payment will be made in United Kingdom currency either:

- (a) At the Securities Department of Hill Samuel & Co. Limited, 45 Beach Street, London, EC3P 2LZ. Unless persons depositing coupons at such office request payment in rands to an address in the Republic of South Africa, payment will be made in United Kingdom currency either:
- (i) in respect of coupons lodged on or prior to 19th January 1985 at the office of the Depository, Hill Samuel & Co. Limited, 45 Beach Street, London, EC3P 2LZ; or
- (ii) in respect of coupons lodged on or after 20th January 1985 at the office of the Depository, Hill Samuel & Co. Limited, 45 Beach Street, London, EC3P 2LZ, through an authorised dealer in the Republic of South Africa, in accordance with the provisions of clause No. 102 attached from share warrants to bearer as under:

Coupons must be left for at least four clear days for examination and may be presented on weekday (Saturday excepted) between the hours of 10.00 a.m. and 3.00 p.m.

United Kingdom income tax will be deducted from payments to any person in the United Kingdom in respect of coupons deposited at the Securities Department of Hill Samuel & Co. Limited, unless such coupons are accompanied by inland revenue non-residence declaration forms, where such declaration is made the net amount of the dividend will be the United Kingdom currency equivalent of 24.35 cents per share in terms of sub-paragraph (a) above arrived at as follows:

Amount of dividend declared	35.0
Less South Africa non-resident shareholders' tax at 14.1251%	4.945185
	30.054815
Less U.K. Income tax at 15.0709%	5.54815
on the gross amount of the dividend of 35 cents	24.5

Holders of share warrants to bearer may obtain a copy of the annual report and accounts upon application to 40 Holborn Viaduct, London, EC1P 1AJ.

For and on behalf of  
ANGLO AMERICAN CORPORATION OF SOUTH AFRICA LIMITED  
J. C. Greenfield

7th December 1984

NOTE: The Company has been presented by the Commissioners of Inland Revenue to elect the double tax agreement between the United Kingdom and the Republic of South Africa, the South Africa non-resident shareholders' tax applicable to the dividend is allowable as a credit against the United Kingdom tax payable in respect of the dividend. The deduction of tax at the reduced rate of 14.1251% (instead of the basic rate of 30%) represents an allowance of credit at the rate of 14.1251%.

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### BARCLAYS OVERSEAS INVESTMENT COMPANY B.V.

U.S. \$600,000,000

Junior Guaranteed Undated Floating Rate Notes ("the Notes")

In accordance with the Trust Deed dated 1st November, 1984 ("the Trust Deed") made between Barclays Overseas Investment Company B.V. ("the Company"), Barclays Bank International Limited and Sun Insurance Office Limited, constituting the Notes, the Company hereby gives notice that 26th February, 1985 has been determined as the Exchange Date as defined in Clause 4(B) of the Trust Deed.

Persons entitled to delivery of any of the Notes are accordingly advised to obtain from the specified office of the Foreign Agents, the office for CEDEL S.A. in Luxembourg or the office of Morgan Guaranty Trust Company of New York as operator of the Euro-clear System ("Euro-clear") in Brussels, the form(s) of the relevant certificate(s) to be completed, stating that such Notes are beneficially owned by persons (a) who are not (i) U.S. persons (as defined in the Trust Deed) or (ii) who are not (b) U.S. bank branches (as defined in the Trust Deed). Completed certificates should be delivered to the office of CEDEL S.A. in Luxembourg or to the office of Euro-clear in Brussels prior to, on or after the Exchange Date. Definitive Notes with Coupons will be available on or after the Exchange Date in exchange for relevant certificates.

BARCLAYS OVERSEAS INVESTMENT COMPANY B.V.  
7th December, 1984

### NOTICE TO HOLDERS OF EUROPEAN DEPOSITARY RECEIPTS (EDRs) IN STAR MFG. CO., LTD.

EDR holders are informed that Star Mfg. has paid a dividend to holders of record September 30, 1984. The cash dividend payable is Yen 4.25 per Common Share. Pursuant to the Terms and Conditions the Depository has converted the net amount, after deduction of Japanese withholding tax, into United States Dollars.

EDR holders may now present Coupon No. 2 for payment to the undermentioned agents. Payment of the dividend with a 15% withholding tax is subject to receipt by the Depository or the Agent of a valid affidavit of residence in a country having a tax treaty or agreement with Japan giving the benefit of the reduced withholding tax. Countries currently having such arrangements are as follows:

A.R. of Egypt	Dominican Republic	India	Poland	Switzerland
Australia	France	Italy	Portugal	United Kingdom
Belgium	Germany	Japan	Spain	U.S. of America
Canada	Hong Kong	Malaysia	Sweden	Zambia
China	Hungary	Netherlands	Spain	
Czechoslovakia	Indonesia	Norway		
Denmark	Japan	Norway		

Holder of a valid affidavit of residence withholding tax will be deducted at the rate of 20% on the gross dividend payable. The full rate of 20% will also be applied to any dividends unclaimed after April 30, 1985.

Amounts payable in respect of current dividends.

Coupon No. 2	Gross Dividend	Dividend payable less 10% Japanese withholding tax	Dividend payable withholding tax
EDR denomination 1,000 shares	\$17.79	\$17.79	\$1.82

Depository: Citicorp Bank, 330 Street, London WC2R 1HL  
Agents: Citicorp Bank Luxembourg S.A., 16 Avenue Marie Theres

December 7, 1984

### MAFINA B.V. NOTICE

TO THE HOLDERS OF BONDS OF THE ISSUE 4 1/2% 1977/1988 OF U.S.\$75,000,000

Notice is hereby given to the holders of bonds that the 2nd annual instalment of bonds amounting to U.S.\$12,000,000 has been purchased for redemption on January 1, 1985 and that consequently no drawing by lot will take place.

Amount outstanding on January 1, 1985: U.S.\$48,000,000

By BANQUE INTERNATIONALE A LUXEMBOURG S.A., Luxembourg, November 30, 1984

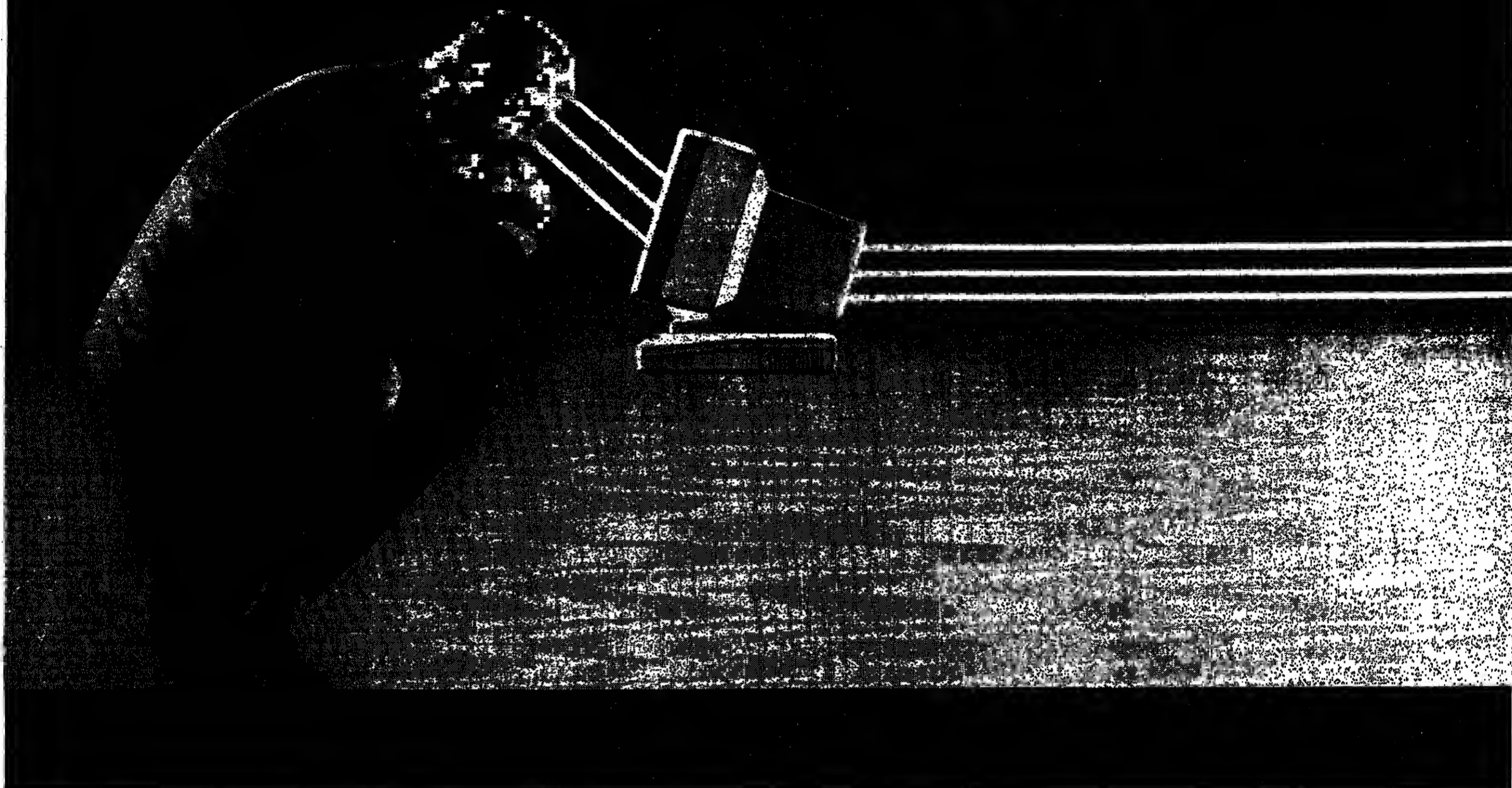
### Announcement Clubs

DAMAGED COPPER AT CRICKLEWOOD FIVE. Would the holder of Warran No. CAL033115 please contact MCGraw-Hill, Warran No. 10, 330 Avenue of the Americas, New York, N.Y. 10013, or Siratford, London E13 2JZ, Ref. 81J.

SVS has notified the others because of a survey of fair play and value for money. Games from 10.30 am onwards. Non-members, clamorous requests, exciting. Northwood, 130 Regent St. 01-74 0537.



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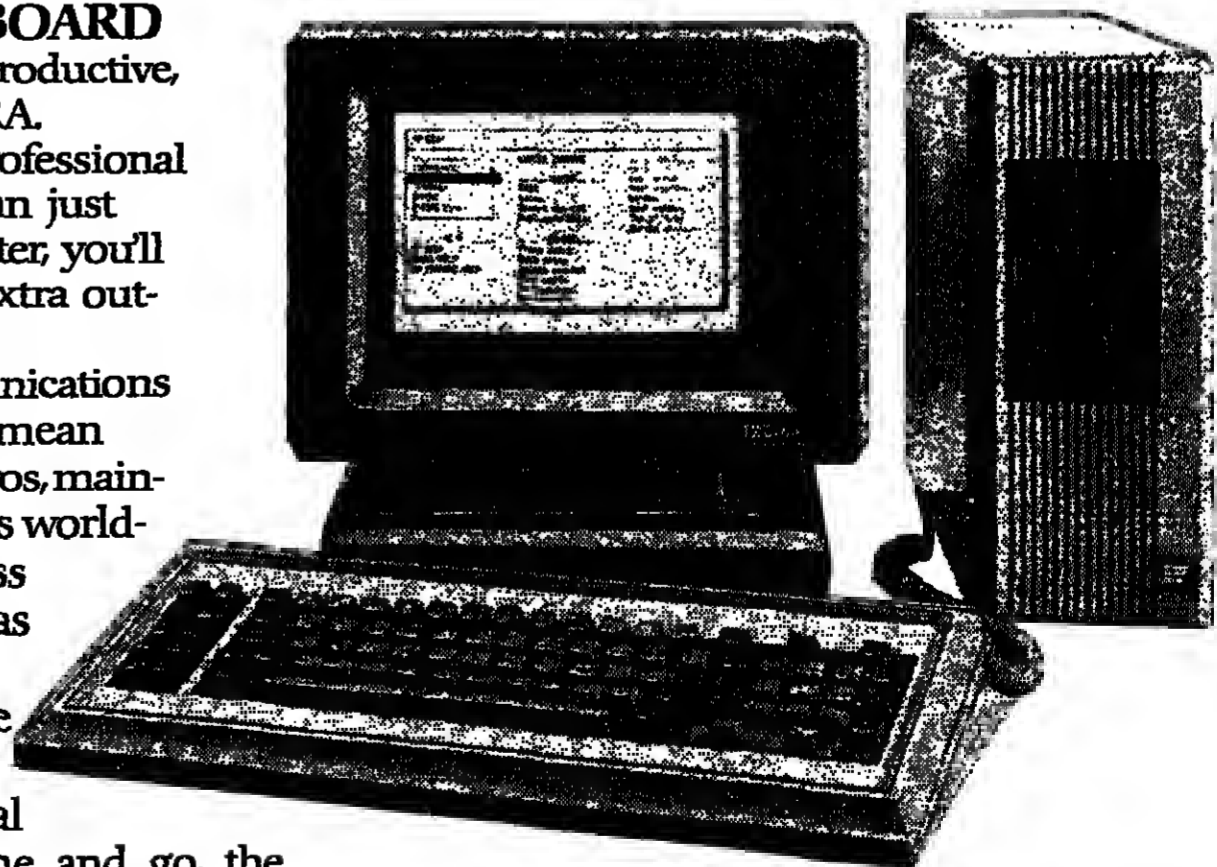
The built-in communications and five expansion slots mean direct access to other micros, mainframes and networks; plus worldwide electronic mail, access to Videotex systems, such as Prestel, and, in the near future, simultaneous voice and data transmissions.

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is here to stay. Which would you rather have – a conventional personal computer, or a system that offers something extra?

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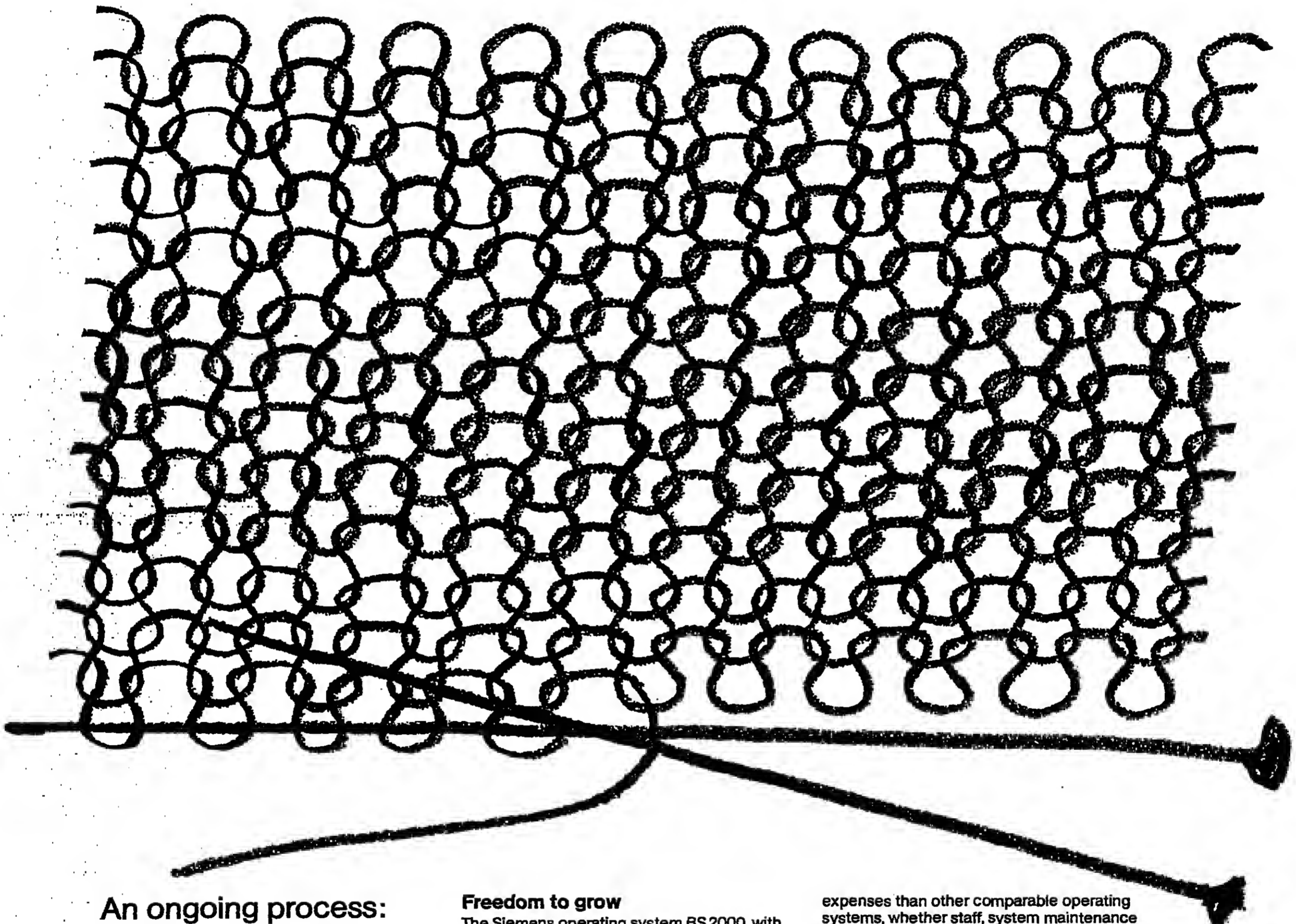






CHRISTOPHER G  
Management  
Abstracts

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The Siemens operating system BS 2000, with currently over 2,600 installations throughout Europe, not only encourages such a development, but also guarantees any investment made in software products. When an enhancement of computer facilities, or simply an increase in computer power, is made, software investments are only safeguarded if the operating system remains the same. This is the point about BS 2000; it covers the full performance range of our state-of-the-art 7-500 series of general-purpose computers, a total hardware program of 10 different models, from medium-sized machines for new installations to the very largest ever developed and produced in Europe.

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BS 2000 is also widespread because it is efficient. Diebold, the American statistical research organization, has determined that BS 2000 generates 40 percent lower operating

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Friday December 7 1984

Late news of Williamsburg

THERE WAS a certain amount of excitement in which we shared, when the Williamsburg summit of 1983 suggested that the IMF should in future take a central role in the co-ordination of national economic policies, which were already notably disjointed.

On Monday, however, the Governor of the Bank of England took the occasion of his James Hodge memorial lecture to think aloud about these larger issues—and to remind us, by the way, that the consultations started at Williamsburg are still alive and well, if hardly urgent.

He also urged a much stronger role for a greatly enlarged World Bank which saw potentially leading the flow of international equity investment in developing countries in much the same way the IMF manages the flows of bank lending.

The next steps in Hong Kong

THE SMOOTH passage of the draft agreement on the future of Hong Kong through the House of Commons and the calm manner in which the people of the colony have accepted it should not lead to a feeling of complacency.

The findings of the Assessment Office, set up to test the acceptability of the agreement to the people of Hong Kong, can hardly be considered a triumphant endorsement of the agreement. The public response to an extensive survey of the colony appealing to the people's opinions on the agreement elicited only 2,500 direct submissions.

On the British side, Sir Geoffrey gave an undertaking in the Commons that Hong Kong Government officials will be included in the British delegation to the Sino-British joint liaison group, due to be set up after the ratification of the agreement.

Given that prospect, it is even more important that the plans for more democratically elected institutions should be put into effect as quickly as possible, modest though they are.

INDIAN CHEMICAL TRAGEDY

The grim lessons of Bhopal

By Tony Jackson, Chemicals Correspondent

IT HAS been a nightmare fortnight for the chemicals and petrochemical industry around the world. On November 19, a liquefied gas explosion in Mexico City cost over 450 lives.

There is another aspect to the problem. Many developing countries commissioned chemical plants in the 1970s, when they were awash either with borrowed funds or with petrodollars.

There is no prescription against panic. The Indian authorities in the Bhopal case—that standards in the Third World are lower.

There is no prescription against panic. The Indian authorities in the Bhopal case—that standards in the Third World are lower.

A MAJOR debate about the role of foreign companies in India and about the pace of the country's technological development is likely to take place once the task of dealing with the immediate tragedy at Bhopal is over.

India is often highly critical of the level of technology it is sold by foreign companies and about the degree to which the technology is kept up to date.

But the immediate concern is about precisely how the accident happened and about the wisdom of allowing a residential area to grow up around a potentially lethal installation.

A bout to receive

A week has been a long time as a receiver for Midlands solicitor Herbert Brewer who indicated yesterday that he does not want to continue to act as Receiver in charge of the financial affairs of the NUM.

As if a rushed and unproductive trip to wintry excursions in search of NUM cash was not enough, he found he had some of the pushier characters of Fleet Street and TV as travelling companions.

If the High Court judge, Mr Justice Mervyn Davies, decides today that the receiver is to continue it will pass into the capable hands of one of the City of London's top men in the trade—Michael Arnold.

Arnold is a senior partner of accountants Arthur Young McClelland Moores and company and is the managing director of insolvency services.

A partner since 1966 he has a considerable reputation in the twilight world of receivership. He recently handled the affairs of the Hong Kong property group Carrion Investments.



"Sorry about the delay—we've been preoccupied in the new livery before take-off"

Men and Matters

while back at home he has been dealing with Snappies, a ciling film maker, and Yorkshire Fine, a textiles company.

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Bhopal: the anguish and the grief

authorities are aware of their locations and exact nature, but neither they nor the industry will publish lists.

in the UK's case probably from next month. The UK version of the Seveso Directive—the Control of Industrial Major Accidents, or CIMAH, will apply to the 250 sites which store very large quantities of dangerous substances.

But the German chemical Bayer, which makes the "Bhopal" chemical methyl isocyanate at Dormagen on the Rhine and in Antwerp, says bluntly that the Seveso incident is a disaster like Bhopal which would in its case be impossible.

UNION CARBIDE'S PLANT THAT WILL NEVER RE-OPEN

The last of a handful originally brought from the U.S. when the plant was being set up left a year or so ago.

India strictly controls the number of foreigners admitted to help set up technical collaborations, vetting each individual's application on a case-by-case basis.

Foreign companies often find it difficult to adapt to restrictive policies such as these and to strike an effective balance between letting Indians control joint ventures

How this is to be done will be up to the companies—by newspaper advertising, delivery of leaflets, or public meetings. But the directive is to be phased in gradually, and this particular part of it will not be mandatory until 1986.

It might seem surprising that so central a requirement should come so late in the day. But then, the other main plank of UK regulation—the Notification of Installations Handling Hazardous Substances Regulations, or Notification Regulations for short—was only brought into force in 1982.

The regulations require that all 1,500 or so plants handling dangerous chemicals in quantities large enough to have off-site effects should notify the Health and Safety Executive. The HSE then has the duty to inform local authorities and the emergency services, and also to consult with the planning authorities on the limits which should be set on new building in the area.

These regulations are, to an extent, only a codification of what was done in a less systematic way in the past. There is, though, one worrying aspect. The Notification Regulations were introduced as a response to the Flixborough disaster of 1974, which killed 28 people. The CIMAH regulations are being introduced as a response to the Seveso incident. If there is truth in the notion that for companies the spur to action is regulation, it seems equally true that for regulators the spur to action is disaster.

Indeed, it would seem that disasters can sometimes have radical effects on the attitudes of the companies themselves. Days after the Seveso incident in 1976 the Coalgate Group, sole UK manufacturer of the offending chemical trichlorophenol, closed its Boleover plant for checks. Though nothing was found to be wrong, the plant never reopened.

But the German chemical Bayer, which makes the "Bhopal" chemical methyl isocyanate at Dormagen on the Rhine and in Antwerp, says bluntly that the Seveso incident is a disaster like Bhopal which would in its case be impossible.

The recent tragedies highlight is a good deal of bitterness in some parts of the industry over what is seen as the unfairness of the public's attitude to accidents.

Unfair or not, though, the public's attitude is a fact of life. Within the industry itself, some are arguing that the proper response to ill-informed criticism is not indignation or hurt silence, but information. Unless companies adopt a more communicative attitude to their public, tragedies such as Bhopal can only deepen the prejudice.

John Elliott in New Delhi

The public's attitude is a fact of life

Unfair or not, though, the public's attitude is a fact of life. Within the industry itself, some are arguing that the proper response to ill-informed criticism is not indignation or hurt silence, but information.

Unless companies adopt a more communicative attitude to their public, tragedies such as Bhopal can only deepen the prejudice.

John Elliott in New Delhi

The outsider

Is Patrick Jenkin, the man who drew the short straw in the government and has had to defend the Thatcher-inspired local government Bills to limit rate rises and abolish Britain's biggest councils, slowly but surely distancing himself from that nest of troubles?

He has yet another unhappy Commons experience this week when he opened the second reading debate on the abolition Bill—and was savaged by his own side.

The abolition of the GLC and the six metropolitan counties is such a major and contentious constitutional issue that the key first clause is to be considered in committee on the floor of the Commons next week.

The Bill then goes into a traditional Commons committee for detailed consideration. Such is its importance that a huge committee of 47 MPs has been named—15 Labour, three Alliance, and 29 Conservatives.

But in spite of the committee's great standing, Jenkin has evidently had enough. He is not a member and thus cannot be called upon to defend even the most controversial of the Bill's clauses.

Kenneth Baker, appointed local government minister to improve presentation of these matters, will, it seems, have to cope with the lot.

Free ride

The much vaunted security precautions at this week's Duhlin summit were not all they were cracked up to be.

Despite Mrs Thatcher's public congratulations to the security chief, some journalists at the summit felt far from secure. That was because one passed through all the security cordons by flashing his London Transport "All Zones" bus pass.

At Lloyd's he will be in charge of the present legal department and will be expected to provide what one Lloyd's

BASE LENDING RATES

Table with columns for bank names and interest rates. Includes A.B.N. Bank, Allied Irish Bank, Amro Bank, Henry Ansbacher, Arco Trust Ltd., Asotels Cap. Corp., Banco de Bilbao, Bank Hapoalim, BCCI, Bank of Ireland, Bank of Cyprus, Bank of India, Bank of Scotland, Banque Belge Ltd., Barclays Bank, Beneficial Trust Ltd., Brit. Bank of Mid. East, Brown Shipley, CL Bank Nederland, Canada Fernat Trust, Cayer Ltd., Cedar Holdings, Charterhouse Japetco, Choulartons, Citibank NA, Citibank Savings, Clydesdale Bank, C. E. Coates & Co. Ltd., Comm. Bk. N. East, Consolidated Credits, Co-operative Bank, The Cyprus Popular Bk., Dunbar & Co. Ltd., Duncan Lawrie, E. T. Trust, Exeter Trust Ltd., First Nat. Fin. Corp., First Nat. Secs. Ltd., Robert Fleming & Co., Robert Fraser & Pms., Grindlays Bank, Guinness Mahon, Hambros Bank, Heritable & Gen. Trust, Hill Samuel, C. Hoare & Co., Hong Kong & Shanghai, Johnson Matthey Bkrs., Knowsley & Co. Ltd., Lloyds Bank, Mallinball Limited, Edward Manson & Co., Meghraj and Sons Ltd., Midland Bank, Morgan Grenfell, National Bk. of Kuwait, National Girobank, National Westminster, Norwich Gen. Trst., People's Trst. & Sv. Ltd., R. Raphael & Sons, P. S. Refson, Roxburgh Guarantees, Royal Bk. of Scotland, Royal Trust Co. Canada, J Henry Schroder Waggs, Standard Chartered, Trade Dev. Bank, TCB, Trustee Savings Bank, United Bank of Kuwait, United Mizrahi Bank, Westpac Banking Corp., Whiteaway Laidlaw, Williams & Glyn's, Wistrust Secs. Ltd., Yorkshire Bank.

Members of the Accepting Houses Committee. 7-day deposits 8.25%, 1 month 7.00%, fixed rate 12 months 6.50%, 6.75% £10,000, 12 months 6.00%. 7-day deposits on sums of under £10,000 8.25%, £10,000 and over 6%. 21-day deposits over £1,000 7.4%. Demand deposits 6%. Mortgage base rate.



POLITICS TODAY

Exclusive—Sir Keith's victory

By Malcolm Rutherford

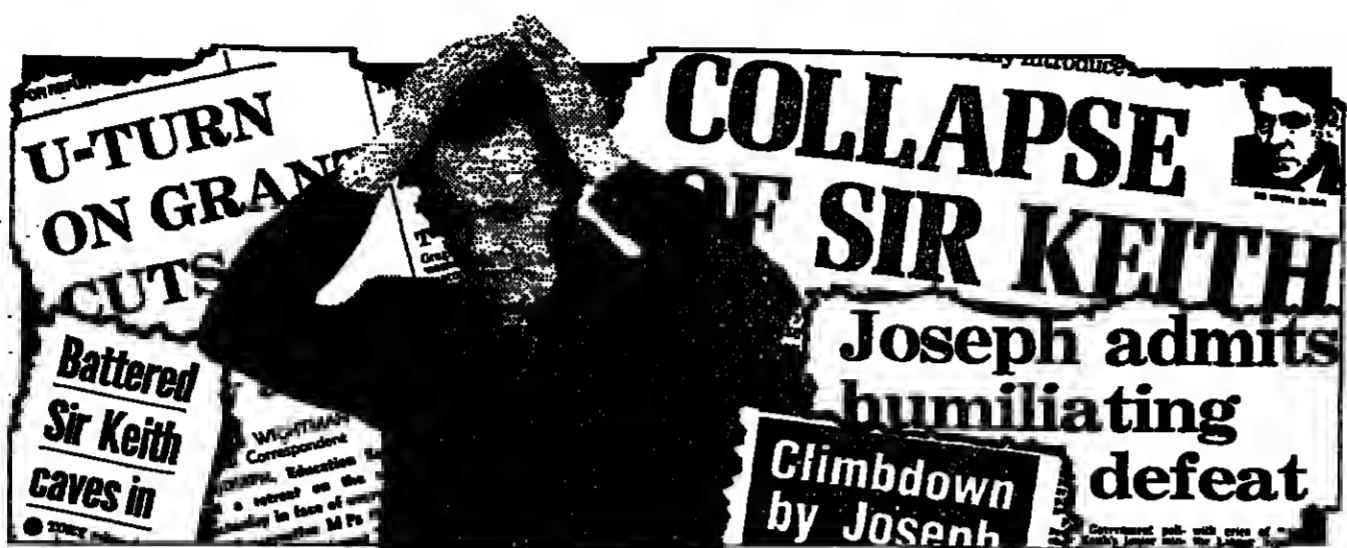
ONE OF the minor pleasures in life is to watch people being almost wrong in the conviction that they are absolutely right.

Sir Keith Joseph, the Secretary of State for Education and Science (don't forget the science bit), provides a perfect illustration.

The subject was student grants. Sir Keith, Mrs Thatcher, Mr Nigel Lawson, the Chancellor of the Exchequer, perhaps the Conservative Party and possibly ultimately the country, won in three ways.

There had been an enormous row over the relatively trivial issues of whether the middle classes should pay slightly more money to finance their children in university education. Sir Keith, the Prime Minister and the Chancellor backed down. Yet the reasons why they won the argument but lost the headlines are as follows:

One of the main problems in Parliament at present is the overwhelming size of the Tory majority. This is embarrassing for back-bench Tory MPs who don't have many ways of making their names. It is also potentially embarrassing to the Government because at some stage the back-benchers might rebel, if only they had a cause on which to unite.



There was, incidentally, an implicit admission in the Labour Party's behaviour that the only Parliamentary opposition to this Government that matters is likely to come from the Tory benches.

Sir Keith did not really hark down other than tactically. He said that the proposed extra parental contribution to student fees was too sharp and had been announced at too short notice, which actually he had thought from the start. But he did not substantially give way.

What he said was that the whole business of finance for students should be placed firmly and openly on the political agenda. There will be a review of the student support system and the results might include the introduction of loans as well as grants, an idea of which the Secretary of State has long been fond.

No doubt it will achieve wider respectability simply by being aired. There is nothing fundamentally wrong with it. They do it elsewhere in other, equally civilised countries, and in some places the notion of working your way through college is second nature, for example, the United States, for example. Hard to attack that.

So Sir Keith won. It would be foolish to claim, however, that the victory was brilliantly engineered. It was a chapter of disasters almost to the happy ending.

One point stands out here. It is the way that in the annual public expenditure reviews governments, Labour or Tory, never seem to learn. It comes down to trimming some residual amount and the result is almost always predictably controversial: like cutting foreign aid or reducing support to the British Council. It saves no money to speak of and gives governments a bad name. One would have thought that there was a method of looking at (say) the financing of British

airing the subject broaches a much wider issue: what do you do about the relatively well-off middle classes, many of whom have all sorts of built-in advantages, like mortgage tax relief, access to good schools and who know how to get the best out of the Health Service?

The Government has not yet consciously raised the matter in these terms, but on the business of student grants it came very close to it. It was the Tory MPs and the Tory middle classes who rebelled (odd, how no one speaks of the knights of the shires any more), yet in the longer run it may well be that it was the relative silence of the left that was the more significant. The left was frankly surprised that here was a Tory Government attacking Tory privilege, which was exactly what Sir Keith was doing.

How much further the Government will go down this road remains to be seen. My own guess, however, is that it will seek to become steadily more radical even at the risk of offending some of its own supporters. There are three reasons for thinking so.

The Government has been extremely lucky with time. It won a second term very largely because of the splits in the opposition. But time is still beginning to run out. There is quite a strong view among senior ministers that Mrs Thatcher's first term was not nearly

it back by several per cent. Pseudo-cuts of future programmes will not be enough. We shall need to cut state employment and subsidies to rail, steel, housing and the supported sector."

That was in 1976. The lecture was called "Monetarism is not Enough," and the title meant what it said.

Maybe Sir Keith and his colleagues are now putting some of that message more into effect. For there is another point about the student grants affair

worth noting. When Mrs Thatcher's administration was discovered (by The Economist) to be looking at the future of social security benefits, the National Health Service, and their financing, the matter was promptly shelved on the express instructions of the Prime Minister.

Today the Government has grown wiser, or more cunning. It uses a row about student grants to bring the possibility of student loans into the open. And if the amount of money involved is not very large in the short term, the very fact of

cutting the subject broaches a much wider issue: what do you do about the relatively well-off middle classes, many of whom have all sorts of built-in advantages, like mortgage tax relief, access to good schools and who know how to get the best out of the Health Service?

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that the strong look after themselves and also help to look after the weak.

An alternative to the dole

From Sir Richard O'Brien

Sir,—The article by Samuel Britton on "An alternative to the dole" (December 3) is welcome. He is right to state that a "combination of unmet needs and unused human labour is illogical and uneconomic (I correct what I assume to be typographical errors) as well as a social scandal."

In my view the simplest thing to do now would be to expand the Community Programme from 130,000 to 500,000 places immediately; we have the projects, the know-how and the administration through the MECO to do this. As Richard Lard states in his letter (December 4) the £1.5bn which the Chancellor is considering for tax cuts should be used to finance this scheme.

The merit of Mr Britton's article is that he brings the subject into the realm of practicalities. It would be helpful in the current state of public concern if the Government were to publish a Green Paper setting out possible alternative means, with costs, by which this objective could be achieved.

Public opinion would, I suggest, be responsive because there is increasing support for putting employment and unemployment at the top of the national agenda.

When they are bad they are horrid

From Mr A. Thomas  
Sir,—I am writing following the letter from Mr A. W. Nelson (November 24), whose views I fully endorse. Any individual engaged in tax practice must have experience of the changing attitude of the Inland Revenue. This is not only between the Inland Revenue and the taxpayer but I feel certain that some instances of the attitude towards accountants (and probably other professionals too)

Letters to the Editor

has become much more aggressive.

There must be many instances in practice when the amount of tax recovered bears no resemblance to the costs involved in collection, not only to the client but also to the Inland Revenue. If this aggressive attitude continues, and I have no reason to suspect it will not, then there must surely be grounds in certain circumstances for the Inland Revenue to bear a proportion of the client's costs.

Although the Revenue's attitude is likely to continue, I also agree with Mr Nelson that there are many reasonable Revenue officers. I was very encouraged by the fact that Mr John Isaac, a deputy chairman of the Board of Inland Revenue, earlier this year attended the members' conference of the Institute of Taxation. He spoke exceptionally well and indeed, it is a welcome change that such senior Board officers are prepared to venture into the "real world" in an attempt to understand the problems of both taxpayers and accountants.

All taxpayers and their advisers can only hope that things get better but there is every likelihood that, as fewer and fewer people are paying taxation of one sort or another, the problems could conceivably become more acute.

Two bond markets

From the Chief Bond Economist, Simon de Coates  
Sir,—I was most interested in Mr Stephen Lewis's comment on the gilt-edged market "Yields pattern set to change again" (December 3). While I would agree with his view that the relative yield structure between the U.S. Treasury bond market and the UK gilt market is chiefly affected by budget deficits and inflation in the two countries, he appears to have neglected the importance of the present relative position of the two markets. It is generally difficult to know where to go if one has not established where one is.

Empirical evidence indicates that the yield spread between the two bond markets is chiefly determined by the two countries' current inflation rates, the current and previous years' budget deficits (as a share of national product) and move-

ments in the exchange rate. Using generally expected values for these factors for 1985, the equilibrium value of the 20 year yield spread in the two markets would be about 165 basis points.

The statistical properties of such an equation suggest that the actual yield spread would fall within the range of 105-225 basis points most of the time. So the present position (at 130 basis points) would indicate that gilts are cheap relative to their Treasury counterparts. Such a situation would indicate over-performance by gilt-edged securities relative to U.S. Treasury bonds rather than under-performance (as Mr Lewis has suggested).

If Mr Lewis was concentrating on a very long term assessment—and perhaps his comment about deficits in 1988 indicates this to be the case—then he seems to be taking a lot for granted regarding the ability of the U.S. President and his Congressional counterparts to come to some agreement over the nature of any deficit cutting package. What is clear is that the present \$200bn deficit will take a long time to whittle away, particularly given Mr Reagan's dislike of increasing taxes. Cuts will need to fall on the spending side and we know how difficult this has been to accomplish here in the UK. In the meantime, the U.S. Treasury will continue to be a major borrower in the markets and the relative performance of gilt and Treasury markets will be affected accordingly.

On present fundamentals, the UK gilt market is cheap relative to U.S. Treasury issues. On future fundamentals—well in the long run, U.S. Treasury issues could be cheap, but that is taking a lot on trust. In the meantime, the six foot man drowns in the stream that has an average depth of three feet.

University fees

From Mr T. French  
Sir,—Mr Ball (December 1) clearly represents a fairly widespread strand of thinking in the country, but it is one which needs to be countered. If Mr Ball would change to a Fascist/Socialist society, he will certainly get these charges cancelled. But he will also have to put up with many other horrendous changes which will like very much less. If he wants Conservatism he must accept one of the basic tenets of Conservatism

Lombard

Charisma back in vogue

By Christopher Lorenz

ALL OF a sudden, after a period in which "team leadership" was held by many people to be the only effective way of running large companies in today's complex, international marketplace, the virtues of individual charisma are back in vogue.

Hardly a week now goes by without some new anecdote in the media about the power of inspiring individuals to revitalise organisations which until very recently were slumbering or even comatose.

From the U.S. comes evidence of miracle-working by Lee Iacocca at Chrysler, Jack Welch at General Electric and (just maybe) Ed Acker at PanAm. In the UK, which has had more than its fair share of troubled companies, the candidates are legion. The list is headed by Lord King at British Airways, John Harvey-Jones at ICI, Christopher Hog at Courtaulds, and Sir Michael Edwardes, formerly at BL.

Such examples certainly lend weight to the assertion by Sir Michael himself, in a controversial attack on top British management last month that many more companies need to overthrow their cosy tendency to "wallow in consensus," and should instead submit themselves to a good dose of crisp, courageous leadership. But precisely the same examples also cause one to qualify the popular conception of charismatic leadership, and to question the military model on which it tends to be based.

To cite the chairman of BA, and with him the ex-boss of BL, in the same breath as the head of Courtaulds is to contrast two very different styles of "inspirational" leadership. The first, which is the most widely recognised form of "charisma" in business, is one of iron rule, heavily laced with fear. The second is based far more on the exercise of an even-tempered, even cool, cerebral power. The ICI chairman exhibits yet another effective style, described by one admirer as "ebullient yet incisive bonhomie."

Just as there are many successful styles of individual leadership, so the effectiveness of each varies over time, and from place to place. In a sec-

tion of his remarks which went widely unnoticed in last month's brouhaha, Edwardes argued that someone who is right for a company at one stage of its development may not be at a later stage. If he had stayed at BL for more than four years, he suggested, he would have been only a third as valuable as during his first three years there.

A less confrontational form of leadership may have a much longer life cycle, depending on the individual and the company concerned.


One of the prime causes of the misconception that business leadership essentially consists of "the great man on his white horse" is the over-reliance on military parallels. This is a particular tendency among Britons, still obsessed with the glorious exploits of Nelson, Montgomery and all their other military "greats," and all too aware—until now, at any rate—of the relative absence of models in the British business world itself.

Top executives certainly have a lot to learn from the great military leaders. There are obvious lessons in the clarity of their objectives, in their ability to communicate them and in their admirable concern with organisational morale and training.

But the differences between the modern military and business worlds outweigh the similarities. Most businesses are continually at war, and do not enjoy the luxury of constant practice for an occasional battle. They do not face just one enemy, who is reasonably predictable, but several, so that response and counter-response are often all but impossible to assess.

In business, organisational structures tend to be far more complex and difficult to manage than in the military world. Above all, business leaders, be they charismatic individuals or not, continually have to create and sustain consensus about their chosen strategies and tactics. Unlike their military counterparts, they cannot take the consent of their troops for granted. Would-be business leaders have more to learn from their own kind than from their childhood heroes.

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FIERCER OPPOSITION LIKELY TO U.S. SPENDING CUTS

Reagan faces battle over budget

BY STEWART FLEMING IN WASHINGTON

PRESIDENT Ronald Reagan has successfully seized the political initiative with his decision to demand from his cabinet draconian cuts in the Federal Government's spending in order to try to reduce the projected federal budget deficit from \$224bn to \$100bn by 1988.

port U.S. exports, eliminating federal aid for urban mass transit, including subsidies to Amtrak, the federally-subsidised passenger rail system, tightening federal funding of the Medicare health programme for the old and Medicaid, health care for the poor, terminating library grants and cutting child nutrition programmes.

meet the overall budget targets he is aiming for by taking the initiative himself early in the budget planning process within the Administration and personally supervising the cuts now being proposed to government departments. Whether all the spending reductions now being examined will actually appear in the budget proposal he puts to Congress next month remains in doubt.

get experts on Capitol Hill as a more realistic outcome. For the time being, however, criticism of Mr Reagan is muted. Democratic leaders are reportedly anxious to avoid attacking head on the President's plans so soon after his sweeping electoral victory.

Purist and realist set to clash at Greens' conference

By Robert Cornwell in Bonn

A MIGHTY, and probably venomous, argument over future power-sharing with the conventional Social Democrat (SPD) opposition is likely to overshadow all else at this weekend's party conference of the radical left-wing Greens which opens today in Hamburg.

These successes, however, and the simultaneous collapse of the liberal Free Democrats, are relentlessly intensifying pressure on the Greens to define their attitude to real political power - to other words, whether they are ready to join forces with the SPD to allow left-wing governments to be formed, both locally and conceivably at national level, after the next Bundestag election in February 1987.

In that sense, the conference is something of a watershed, as opinion polls give the party consistently up to 10 per cent (in some cases even more) of the popular vote.

It comes to the wake of the confused withdrawal of the Greens from a pioneering collaboration agreement with the SPD in the state of Hesse, which had been ratified only five months before.

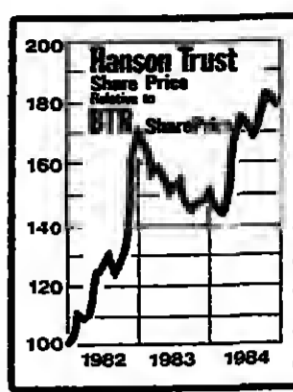
The divisions within Green ranks, between fundamentalists and purists against all power-sharing and pragmatists who believe change of Green policies, however imperfectly, has led to reality, are reflected in two contrasting keynote motions to go before the 800 delegates in Hamburg.

The realists, a minority at the party's summit but including the most successful Green parliamentarians, want a gradualist course of "ecological reforms."

THE LEX COLUMN

Hanson repays the trust

Hanson Trust and BTR share an uncanny ability to split ever higher returns out of basic and often declining industries. The approach of middle age - Hanson is now in its 21st year - has not slowed the company down a jot.



Believers in the anticipatory power of markets will infer that BOC's prospects are no longer seen in a particularly rosy light. It so - given BOC's heavy U.S. investment - the high dollar must be as much to blame as fear of a U.S. recession.

All the same, it is hard to be very pessimistic about the current year. The loss-making parts of BOC's welding business have gone, and there will be other gains from rationalisations paid for above the line in 1984.

Bass is showing fairly clean heels to its rivals among the brewing majors, turning in the sort of pre-tax profits growth that leaves Allied standing and Whitbread some way behind. To have achieved volume growth in beer sales of 3-4 per cent in a flat market is quite something, especially as Bass has been notably sniffling about discounting in the take-home trade. It may have been Bass's traditional door presentation of its results for the year to September - or more probably, the lower than expected profits from property

sales - that knocked the share about, but it recovered to close up at 435p. Bass never appeared completely sold on its plan to draw a quarter of its profits from something other than beer; now, it is going in the opposite direction. The leisure business put in only 15 per cent of trading profits, with the miners' strike not helping overcapacity at holiday camps and Corals paying out on too many favoured racing winners during the summer.

The share leaves Bass on a p/e of 9.8 at tax of 33.0 per cent. This is not seen as a particularly high price in the period before yesterday's results.

Ferranti Yesterday's interim results from Ferranti, showing pre-tax profits up 25 per cent to £18.5m, could not have been less of a bombshell. Indeed, a falling market managed to nudge the shares down 3p to close at 178p. For the half-year to end September, all divisions contributed strongly, with electronics in particular showing a lot more fizz.

The only cloud on the horizon is the threat of cuts in UK defence spending. Ministry of Defence contracts now take a 40 per cent bite out of Ferranti's production, and the company may need to expand its civil and overseas business to reduce that reliance. But the market still takes a sanguine view of Ferranti's future, assuming £49m for the year and a 32 per cent tax take, the shares stand on a multiple of over 23.

Profits at Hanson Trust soar 86%

By Ray Maughan in London

HANSON TRUST, the diversified UK conglomerate which makes batteries, bricks and boots amid a wide spread of manufacturing interests on both sides of the Atlantic, made the most of its two big acquisitions in 1984 and pushed profits, announced yesterday, up by 86 per cent to a peak £169.1m (£204m).

Profits include a seven-month contribution from London Brick, acquired for £247m after a long battle, and five months from U.S. Industries, the North American conglomerate which, at a cost of the equivalent of £384m, is Hanson's largest acquisition to date.

Each contributed some £10m after financing charges, and the effect of translating strong dollar earnings into sterling was estimated to have been worth almost another £10m.

Earnings rose 70 per cent to 19.2p a share, the dividend has been increased by 50 per cent to 5p a share and worldwide employment expanded by 17,000 to 67,000 in the year to September 30.

London Brick, which had been forecasting annual profits of £30m at the height of its defence, made £15m but cannot meet buoyant demand.

One of the most striking advances was achieved at British Ever Ready, acquired after some what less of a struggle at the beginning of 1983. Despite a £13m drop in turnover, the effect of lower overheads and increased productivity was a profit increase from £20.5m to £31.9m.

Hanson's shares rose 11p to 278p, just 4p below the all-time peak.

See Lex, this page; Details, Page 24; Stock markets, Section III

Japan will restrict steel exports to U.S. to 5.8% market share

BY ROBERT COTTRELL IN TOKYO

JAPAN'S Ministry of International Trade and Industry (MITI) said in Tokyo yesterday that its negotiators in Washington had agreed to restrict Japan's steel exports to the U.S. next year to a maximum 5.8 per cent market share in six of the main categories.

The basic agreement with Japan is the first to be reached by the U.S. in a series of bilateral negotiations with important steel exporting countries.

A MITI official said that no agreement had yet been reached on how long the restriction should remain in force. The U.S. he said, was still asking for five years, which Japan considered as too long.

Steel industry spokesmen believe the MITI negotiators want just one year of restraint, but the MITI official said Japan was not at present making a counter-proposal on duration.

Japanese and U.S. negotiators now plan to hold further discussions on how the overall restraint level will be reflected - in particular, categories of steel product will be discussed.

Japan took an average 6.3 per cent of the U.S. steel market in the 10 years to 1983. In the first 10 months of this year, shipments of Japanese steel to the U.S. rose 73 per cent to 5,636,000 tons, equivalent to a 6.7 per cent market share.

Japan's steel industry and government negotiators originally argued for the 6.3 per cent level to be fixed as the new ceiling but apparently decided to compromise late on Wednesday night.

The acceptance of a 5.8 per cent ceiling meant a very large cutback for Japan, the MITI official said, but he did not expect it to result in any plant closures.

A spokesman for one of Japan's largest integrated steelmakers said that the restraint would increase the Japanese steel industry's overheads.

IEA forecasts sharp fall in commercial oil stock levels

BY RICHARD JOHNS IN LONDON

COMMERCIAL OIL stocks in industrialised countries may fall to the equivalent of only 71 days forward consumption by the start of 1985, the lowest level for six years, according to the latest projections of the International Energy Agency (IEA).

In its latest monthly oil market report the IEA puts the likely level of the draw-down by companies during the current quarter at 1.1m barrels a day.

The figures indicate that the run-down in company stocks - the lowest level since the second great oil price escalation began - was substantially greater last month than "excess" production by the Organisation of Petroleum Exporting Countries (Opec).

The IEA calculates Opec output at approximately 18.6m b/d in November compared with the new record ceiling of 18m b/d supposed to be observed as a result of the agreement reached at its last ministerial conference. The report stresses, however, that there is "still considerable uncertainty regarding actual output for this month."

Lower commercial stocks should be partially offset by a rise of those held by governments of 300,000 b/d, according to the IEA, but the increase would have been almost completely accounted for by the U.S. and Japan.

Total stocks on land in the OECD (Organisation for Economic Co-operation and Development) area at the start of 1985 look as if they will be the equivalent of 90 days' forward consumption but marginally lower at 89 days in West Europe, says the IEA.

price escalation began - was substantially greater last month than "excess" production by the Organisation of Petroleum Exporting Countries (Opec).

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Spanish bank in Pta 26bn debt provision

By Robert Graham in Madrid

BANCO Hispano-Americano, the third largest Spanish banking group, has decided to pass its 1984 dividend and set aside Pta 26bn (\$152m) to cover bad and doubtful debts.

This was in order to consolidate its financial position after merging last year, with Urquijo, the troubled industrial bank, an official from the bank said last night. Last year's debt provision was Pta 17.5bn.

This is the first time that one of the big seven Spanish banks has not paid a dividend since Spain's economic boom began in the 1950s. Although the decision was made known last night after a board meeting, rumours of Hispano's move had caused heavy selling of its shares on the stock market.

Talks are continuing with the Bank of Spain on additional aid to Urquijo, which has now merged with Hispano's other industrial subsidiary, Bankunion.

At one stage it was thought the authorities might try to provide assistance to avoid Hispano's passing over the dividend, but both the bank and the authorities appear to have preferred to opt for a clear-cut demonstration of Hispano's clean-up.

Nevertheless, the Spanish investor has long been accustomed to the idea of banks paying out healthy dividends, and the move is certain to come as a shock.

Last year, Hispano recorded pre-tax profits of Pta 13.8bn

main U.S. rating agencies, disclosed that it was reviewing Union Carbide's debt ratings for possible downgrading. Moody's said: "The recent pesticide plant accident in India could create a material financial liability for Carbide, given the magnitude of the disaster."

Union Carbide, however, yesterday repeated its assertion that its insurance coverage was "sufficient" to cover any possible claims. Moreover, the company's financial structure was not jeopardised, it added.

The company took the highly unusual step of denying that it might face financial difficulties and be forced to file for Chapter 11 U.S. bankruptcy code protection as a result of the disaster. The company said its financial structure "is not threatened in any way" and said it "categorically denies that it is considering seeking protection under the bankruptcy laws."

Table with columns for various stock indices and prices, including FTSE 100, Nikkei, etc.

Spot link for UK oil

Continued from Page 1

erment, BNOC had decided to maintain its official price, in spite of heavy trading losses, in the hope that the spot market weakness would prove temporary.

"You cannot stand in the way of the market, but you can perhaps give the market a possibility to pause for breath," he said. A letter from Mr Allick Buchanan-Smith, energy minister to oil companies asking them not to put pressure on BNOC around the same time was part of the same strategy, he added.

Mr Goskirk defended the action as being, arguably, in the national interest, but said that it was now necessary to bring supplier and customer prices back into balance.

FUGIT First Union General Investment Trust Limited. Preliminary Profit Announcement for the year ending 31 December 1984. Declaration of Final Dividend in respect of the year ending 31 December 1984.

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SECTION II - INTERNATIONAL COMPANIES

FINANCIAL TIMES

Friday December 7 1984

**TAYLOR WOODROW**  
 TEAMWORK IN DEVELOPMENT WORLDWIDE

**North American Car files for Chapter 11 with \$813m debt**

BY WILLIAM HALL IN NEW YORK

NORTH AMERICAN Car, the third biggest railcar leasing company in the U.S., has filed for protection under Chapter 11 of the bankruptcy code. It owes domestic and foreign banks and its institutional lenders \$813m.

Mr Michael Feder, North American's president, said yesterday that the company sought the protection of the court after failing to reach agreement with its principal bank and institutional lenders on a voluntary restructuring of its debt obligations.

North American had been hoping to reach a standstill agreement with its bankers to prevent them calling in a \$132m loan immediately payable. The company had already restructured its bank debt once and had defaulted on its loans.

North American is a wholly owned indirect subsidiary of Tiger International, a transport group, and has been treated for accounting purposes as a discontinued operation since December 1983. Tiger said that it might have to write off its \$132m investment as a result of a revaluation of the liquidation value of the North American fleet and the resolution of the negotiations to restructure its debt.

Tiger said yesterday that the bankruptcy filing of North American increases the likelihood that a significant amount of this investment will be written off at the end of the year. Tiger International lost \$222.8m in 1983 but returned to profit in the current year.

Aside from bank borrowings of \$288m, North American owes \$350m to various insurance companies and \$100m to other institutional lenders.

**Canadian Imperial's earnings fall back**

By Bernard Simon in Toronto

CANADIAN IMPERIAL Bank of Commerce (CIBC) suffered a decline in earnings to C\$282.4m (\$217m), or C\$4.88 a share, in the year to October 31, from C\$314.8m, or C\$6.23 a share, a year earlier.

Like the other four big Canadian banks which have published results in the last two weeks, CIBC's performance was blighted by narrower interest margins and an increase in loan loss provisions. Actual loan losses dropped from C\$722m to C\$500, but provisions - which are determined by a five year averaging formula - rose from C\$361m in fiscal 1983 to C\$431m.

All five banks posted a decline in per share earnings in fiscal 1984, with CIBC and Bank of Nova Scotia taking the hardest knocks. BNS's net income fell by 22 per cent.

CIBC's assets totalled C\$68.1bn on October 31, virtually unchanged from a year earlier. Return on assets slipped from 0.46 per cent to 0.41 per cent, the lowest of the five Canadian banks.

The best performer, Toronto Dominion Bank, raised its return on assets from 0.74 per cent to 0.90 per cent.

Mr Donald Fullerton, CIBC's president, said: "We are encouraged by the improvement shown in each of the past two quarters". The fourth-quarter return on assets was 0.51 per cent.

Analysts forecast that an expected decline in interest rates will substantially improve the banks' results in 1985, especially the Bank of Nova Scotia, which has the highest exposure to consumer business.

Mr Terry Shumnessy, of investment dealer Gardner Wharfedale, estimates that the five banks' loan losses will remain at roughly this year's level of C\$1.8bn in 1985.

**Cincinnati Milacron buys UK engineer**

BY ANDREW TAYLOR IN LONDON

CINCINNATI Milacron of the U.S., the world's largest machine tool manufacturer, has bought LK Tool, a small private UK company which has grown in 29 years into one of the world's leading suppliers of co-ordinated measuring equipment.

Mr James Geier, Milacron chairman, said in London yesterday that LK Tool's highly sophisticated measuring equipment used in the manufacture of large components like car bodies and aircraft wings filled an important gap in the U.S. group's armoury.

He said Milacron's future depended upon sustaining the lead in developing integrated manufacturing systems. Previously the U.S. group had been unable to supply its own measuring equipment.

Mr Geier said Milacron normally preferred to develop its own technology but was particularly impressed by the quality of software developed for LK's computer-controlled machines.

Mr Norman Key, who will remain president of LK, started the company with his wife in 1963. His first job had been to make tools for the woodworking industry.

Sales by LK in the 12 months to April 1985 are expected to be about \$20m, of which about \$17m is expected to be generated by U.S. sales. In 1982-83 group sales totalled only \$8m, of which about \$1m was generated in the U.S.

LK, which has an assembly plant employing 100 in the British Midlands, says its link with Milacron could push sales up to around \$30m next year.

**Currency moves lift Aegon's performance**

BY LAURA RAUN IN AMSTERDAM

AEGON, the second-largest Dutch insurance company increased its profit to F1 200 million for the first nine months, compared with F1 173m (\$50m) in the comparable period of 1983.

Earnings rose to F1 13.14 a share from F1 13.11, adjusted for a 7 per cent increase in the number of shares outstanding. Gross receipts increased by 17 per cent to F1 7.3bn bolstered by favourable currency movements.

Aegon, which was formed last

Paul Taylor looks at a U.S. rail group's attempt to avoid privatisation  
**Conrail sell-off rolls into trouble**

MR STANLEY CRANE has spent the past three years putting Consolidated Rail (Conrail) back on the tracks. For the past six months, however, the Conrail chairman and chief executive has been trying to de-rail the U.S. Transportation Department's plan to sell the state-owned railroad to a private sector corporate buyer.

The unprecedented battle between the Conrail management and its biggest shareholder, the U.S. Government, is coming to a head.

At meetings in Philadelphia and Harrisburg, Mr Crane, aged 66, and Mr Robert Platt, Conrail's chief financial officer, made the battle public. The Conrail management has begun to criticise openly the U.S. Transportation Department's plan at congressional-style hearings organised by Republican senators who favour a British Telecom-style public offering.

The U.S. Transportation Department wants to sell the once financially crippled East Coast Railroad, which was formed in 1976 out of the rubble of Penn Central and six other bankrupt railroads, to a corporate bidder.

From a list of 14 bidders drawn up in June, Transportation Secretary Mrs Elizabeth Dole has narrowed the field to three: Allegheny,

an investor group led by Mr William Merriott Jr and Norfolk Southern. All three are offering about \$1.2bn for Conrail.

Mr Crane, Conrail's management, the rail unions and a growing number of congressmen have other plans, however.

Conrail's management began its opposition to the sell-off plan quietly but has become increasingly vociferous as the Government's self-imposed year-end deadline for a decision has come closer.

The management has recently:

- Openly criticised any sell-off plan that would lead to Conrail losing its independence.
- Started an extensive lobbying campaign in Washington and among Conrail's shipping customers.
- Employed Morgan Stanley, a blue chip Wall Street investment bank, to advise it on alternatives and the feasibility of a public offering.
- Offered to reinstate the substantial wage concessions made by the unions.
- Offered to start paying state taxes of \$25m a year in those states where Conrail operates.
- Proposed its own plan which would provide the U.S. Government

with \$1.4bn in cash funded by a \$500m public offering, \$600m from bank loans and \$300m from its own growing cash coffers.

To most outsiders Mr Crane's actions and those of the Conrail management look like a barely disguised and audacious attempt to thwart Mrs Dole and the Transportation Department's plan for a quick sale.

Whatever the nature and motives of the attack it has already succeeded in catching public and congressional attention. It has also apparently attracted the wrath of Mrs Dole.

The Transportation Secretary wrote to Conrail's board pointing out that she had authorised the retention of Morgan Stanley as advisers. The board has yet to reply, but Mr Crane made it clear that he considers he has done nothing wrong. "All I asked them to do was to consider financial options," he says.

The campaign has already created an odd set of allies and pitted natural allies against each other. Conrail's management and its rail unions - often adversaries - seem increasingly close.

In contrast, the question of price, and the form the privatisation should take, appears to have divided Wall Street.

Merrill Lynch representatives, speaking on behalf of Allegheny at the Philadelphia meeting, seriously challenged the long-term financial stability of Conrail despite its projected \$500m profit this year. They implied that the Kirby family, which owns a large slice of Allegheny stock, had bid \$1.2bn only because chairman Mr Fred Kirby's "deep desire to get back into railroads."

Perhaps more significantly, they and Mr John Riley, a Transportation Department federal railroad administrator, questioned whether the Government could obtain from a partial or full public offering the same sort of tough commitments made by corporate bidders. Among the conditions imposed on Allegheny the company has agreed to limit dividends taken from Conrail for five years, to maintain capital spending at up to \$500m a year and to retain services "where economically justifiable."

In contrast, Morgan Stanley, retained as adviser by Conrail's management, and others have suggested that the \$1.2bn price tag is an undervaluation.

Mr Tom Saunders of Morgan Stanley said the investment bank had valued Conrail at \$1.6bn to \$1.7bn earlier this year. He suggested

that a fair price might be much higher.

Mrs Mary Desapio, of Cardinal Capital Transportation, a railroad securities analyst, went further, suggesting that Conrail could fetch "up to \$3bn" at a public offering.

Although price is a crucial factor for Congress which ultimately must decide the issue, jobs, services and the future management structure of Conrail are becoming key factors.

Mr Robert Scarballetti, general chairman of the Brotherhood of Railway, Airline and Steamship Clerks, told the Philadelphia meeting that his union believed a viable Conrail could best be ensured "by a public offering, retaining the existing management."

Mr Crane has also achieved something of a folk-hero reputation. He has overseen a massive trimming of the Conrail workforce - from 100,000 to 40,000 since he took over in 1981 - and he has pulled the railroad from the brink of collapse to healthy profits. In the first nine months of this year Conrail's net earnings were more than doubled to \$411m on revenues of \$2.58bn. Three years ago, the year that Mr Crane became chairman, the railroad edged into the black for the first time with net earnings of \$39.2m.

**Firestone slides in quarter**

BY OUR FINANCIAL STAFF

FIRESTONE, the world's second biggest tyre maker, suffered a fall in fourth-quarter net earnings from continuing operations from \$23m, or 48 cents a share, to \$12m, or 28 cents.

The company's pre-tax operating profit from North American tyre operations dropped to \$3m from \$35m in the 1983 quarter, when the figure was inflated by a Lifo gain. Excluding the gain, profits were about the same as last year.

For the year, North American tyre operations fell from pre-tax profits of \$122m to \$8m with the company blaming intense competi-

tive pricing pressures, higher manufacturing and retailing operating costs, and passenger vehicle tyre shortages earlier in the year.

International tyre operations pre-tax profits also fell in the fourth quarter, from \$29m to \$23m, but rose from \$110m to \$122m for the year.

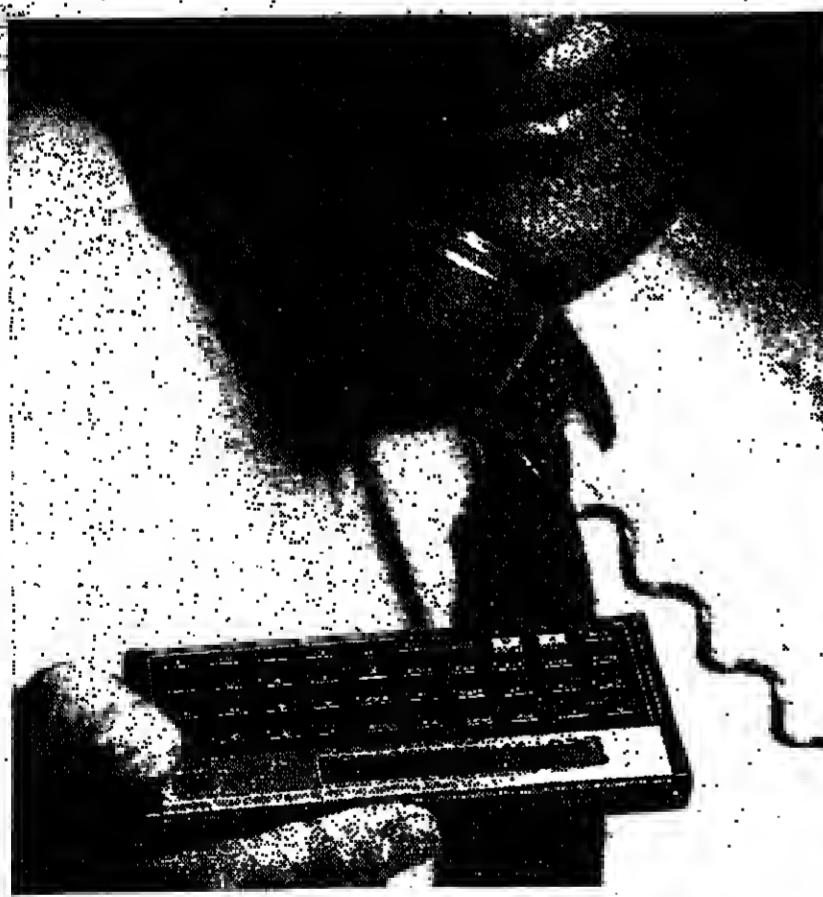
For the company as a whole, net earnings from continuing operations dropped from \$88m, or \$1.79 a share, to \$63m, or \$1.38, in the year ended October 31. The figure included a \$11m gain on the sale of Brazilian rubber plantations, but excluded a \$26m gain from discon-

tinued operations and extraordinary credits of \$13m, which boosted final net to \$102m, or \$2.21 a share.

In the previous year a \$12m gain from discontinued operations and extraordinary credits of \$11m made a final net earnings of \$111m, or \$2.26 a share. The average number of shares during the year dropped from 49m to 48.4m because of a stock repurchase programme.

By far the best performance in the latest quarter and year came from the company's diversified products operations, which include vehicle parts and rubber products.

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November 30, 1984

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## INTL. COMPANIES &amp; FINANCE

## Lazard group in Mediobanca talks

BY ALAN FRIEDMAN IN MILAN AND JAMES BUXTON IN ROME

LAZARD FRERES, the investment bank, is in talks which could result in the group taking 20 per cent of Mediobanca, the powerful Milan-based merchant bank which is majority controlled by IRI, the Italian state holding group.

The stake would be acquired in exchange for a package of shares worth \$98m.

A senior executive at the Lazard Freres group in Paris said last night that the group had been working on a plan which envisaged a share swap between a Luxembourg company controlled by Lazard and Mediobanca.

The idea is for Euralux, the Luxembourg company, to hand over to three IRI-controlled banks which are major shareholders in Mediobanca, a package of shares in Assicurazioni

Generali, Italy's leading insurer.

The Euralux-owned shares, which total 4.88 per cent of Mediobanca, would be used in lieu of cash for a 20 per cent stake in Mediobanca. They have a market value of \$98m.

Mediobanca, which last year made a profit of 1,860bn (945m), is an unusually powerful institution in Italian finance. It is effectively run by Dr Enrico Cuccia, aged 77, who has played a major role in almost every important corporate takeover in recent Italian history.

Mediobanca, known for its secrecy as much as its influence, was behind the takeover by Sweden's Electrolux of the Zanussi home appliance group. Likewise, Mediobanca participated this autumn in the private consortium which bought

control of the Rizzoli publishing group and its Corriere della Sera newspaper.

Sig Giovanni Agnelli, the Fiat chairman, is known to be close to Dr Cuccia and Mediobanca. Sig Agnelli admitted in a statement this week that one of his family's many financial holding companies actually owns a very small indirect stake in Euralux, the Luxembourg vehicle through which the Lazard Freres group is setting. Another Agnelli family vehicle owns a tiny stake in Mediobanca.

The Lazard-Mediobanca plan could founder if political opposition in Rome continues to mount, as it has in recent days. Professor Romano Prodi, president of IRI, is believed to have doubts about the entry of Lazard, a foreign entity which would dilute state control of

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November, 1984

## Flick arms unit denies sell-off plan

By Peter Bruce in Bonn

KRAUSS MAFFEL, one of West Germany's leading defence contractors, moved yesterday to try to dampen long-running speculation that its parent, the controversial Friedrich Flick industrial group, is trying to sell it because of financial difficulties.

In an angry statement, Munich-based Krauss Maffel, which makes the country's main battle tank, the Leopard 2, said Flick had had a good year in 1983 and was expecting even better results this year. Take-over speculation was also dismissed by Krauss Maffel's reputation, it said.

The statement, which is likely to add to speculation about the division's future, rather than reduce it, also said Flick had made it clear it did not have to sell Krauss Maffel.

Flick confirmed this yesterday, but said talks had taken place with parties interested in buying Krauss Maffel. A spokesman said, however, that a much publicised "asking price" of between DM 250m and DM 300m (\$98m) had never been mentioned by the parent company.

At least two consortia are understood to be trying to buy Krauss Maffel. One led by Messerschmitt-Bölkow-Blöhm, has been greeted coldly by the West German cartel authorities, and the Defence Ministry, which worries about concentrating too much defence contracting with one source, MBB is understood to have subsequently brought in a small machine tool and glider manufacturer, Grobwerke, to help reduce its potential stake, and is considering asking a bank to join in a bid.

A second group, whose existence was confirmed by the cartel authorities last month, is being led by Industrie Werke Karlsruhe-Augsburg (IWKA), along with the Dierker aircraft group and as yet unconfirmed, the Diehl engineering group. Diehl bought IWKA's weapons arm, Mauser Werke, in 1979.

Despite Krauss Maffel's defensive statement, it is clear that the bidders believe Flick could be persuaded to sell. Dr Hanns-Arnt Vogel, MBB's chief executive, was chairman of Krauss Maffel's supervisory board until recently.

## Hitachi climbs 27% at midway

TOKYO. — Hitachi's group net earnings climbed 27 per cent in the first half to ¥101bn (\$407.8m) from ¥79.4bn a year earlier.

Sales gained 18 per cent to ¥2,447bn from ¥2,061bn and pre-tax profit rose 30 per cent to ¥247.29bn from ¥190.83bn.

Per-share net advanced to ¥34.74 from ¥28.01, while income per American Depository Receipt (ADR) increased to ¥947 from ¥780. One ADR represents 10 shares.

A favourable sales performance for Hitachi's industrial and consumer electronics products contributed particularly to the company's steep rise in earnings. But all five of the group's sales categories showed gains.

Sales for information-

communication systems and electronic devices, the largest sales category, rose 38 per cent from a year earlier to ¥741bn.

Sales of semiconductors, especially metal-oxide semiconductor (MOS) devices, and computers were particularly strong.

Consumer-product sales, bolstered by demand for video cassette recorders (VCRs) and air conditioners, climbed 20 per cent to ¥855bn. Wire-cable, metal, chemical and other products rose 13 per cent to ¥443bn.

Sales of industrial machinery and plants were up 5 per cent to ¥387bn and that of power systems and equipment up 2 per cent to ¥360bn.

Hitachi's overseas sales

increased 35 per cent to ¥794bn and accounted for 32 per cent of overall sales.

The consolidated report covers the results of the parent and 46 sales subsidiaries, including eight overseas corporations.

For the year to March 1985, Hitachi expects group net income to rise 21 per cent to ¥205bn from last year's record ¥169bn. Sales are expected to reach a record ¥4,980bn, surpassing the previous record of ¥4,367bn last year, on steady growth sales of computers, electronic devices and VCRs.

Separately Hitachi says it has developed a CMOS 32-bit micro-processor test chip with full 32-bit address and data structures.

Agencies

## Turkish bank lifts capital

BY DAVID BARCHARD IN ISTANBUL

AKBANK, Turkey's largest private bank, is to triple its capital from TL 15,000bn to TL 50,000bn (\$115m), Mr Erol Sabanci, the chairman, said yesterday. The bank will also increase its required reserves by TL 35,000bn.

The additional cash will come from the bank's shareholders, the Sabanci Holding Group, one of Turkey's largest industrial groups. Recently, Mr Sabanci reported that the Akbank enjoyed the most successful year in its history.

Most of Turkey's private

banks face major difficulties as a result of the Government's economic reform which has led to an upsurge in bad debt experience.

However, a few Turkish banks, along with foreign banks in Turkey, have adjusted assets management and auditing purposes to take advantage of the new conditions.

On Monday Sabanci Holding is due to sign a \$25m loan agreement with 10 international banks to promote export activities. The loan is the first of its kind to have been secured by a Turkish industrial group.

## Motorola in Taiwan venture

By Our Financial Staff

MOTOROLA of the U.S. is planning a \$40m investment in Taiwan to assemble and test large-scale integrated circuits.

The investment represents further progress in Taiwan's drive to attract state-of-the-art technology, especially in micro-electronics.

The Government earlier this year approved investment applications by MOS Electronics, Quasel, and Vitelic, all of the U.S. The investment by these companies in Taiwan could reach \$100m within three years.

## Boehringer may face big clean-up bill

BY RUPERT CORNWELL IN BONN

BOEHRINGER chemicals and pharmaceuticals concern could face costs "running into hundreds of millions of marks" for the clean-up of its former plant near Hamburg, shut down by a city tribunal because of excessive residual waste containing the lethal chemical dioxin.

This estimate was made yesterday by executives of the group in their first detailed public assessment of the consequences of the closure last June, believed to be the first action of its kind by a West German court against an indus-

trial company. The facility manufactured some 50 tonnes a year of the agricultural chemical Lindan—until it was shown that waste from Lindan production contained large quantities of dioxin and that it could not be stored elsewhere.

Herr Folkert Bellstedt, chairman of the parent company C. H. Boehringer Ingelheim, said yesterday that the clean-up costs, spread over five years, could amount to the equivalent of a full year's pretax profit. In 1983, the last year for

which full figures are available, Boehringer made net profits of DM 56m, on sales of DM 3,833bn. Group turnover this year is forecast to rise 11 per cent to around DM 4.3bn.

According to Herr Bellstedt, the company has first to examine the results of 8,000 earth sample tests in and around the polluted area. As yet no proven method existed for decontamination from dioxin, which was responsible for the Seveso catastrophe in Italy in 1976, the company pointed out.

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Issued and reserved  
for issue on  
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160,806,600

\*including 9,927,839 shares reserved for issue

CSX Corporation (CSX or the Group) was formed in 1980 from the merger of Chessie System, Inc. and Seaboard Coast Line Industries, Inc. The CSX rail subsidiaries provide a full range of transportation services over a 26,000-mile rail system which spans 21 eastern states of the United States of America, the District of Columbia and a Canadian Province. The CSX rail units are America's leading carriers of coal, servicing nearly 20% of the United States coal production. Rail operations contributed 79% of CSX's total revenue in 1983.

CSX substantially expanded its natural resources activities after the acquisition of Texas Gas Resources Corp. in 1983. They now include natural gas transmission and inland barge operations as well as real estate development, aircraft support services and various coal, oil and gas development, exploration and production enterprises.

For the year ended 31st December, 1983 CSX's revenues and net income were U.S. \$5,787 million and U.S. \$272 million, respectively. Revenues and net income for the nine months to 30th September, 1984 were U.S. \$5,879 million and U.S. \$387 million, respectively compared with U.S. \$3,867 million and U.S. \$168 million for the same period in 1983.

The Council of The Stock Exchange has admitted to the Official List all the 160,806,600 Shares of Common Stock of the Company issued and reserved for issue.

Particulars relating to CSX Corporation and its subsidiaries are available in the Extel Statistical Service and copies of such particulars may be obtained during usual business hours on any weekday (Saturdays excepted) up to and including 28th December, 1984 from:

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Floating Rate Notes due December 1988

In accordance with the provisions of the Fiscal, Paying Agency and Reference Agency Agreement between Kuwait Foreign Trading Contracting and Investment Co. (S.A.K.) and The National Bank of Kuwait S.A.K., dated as of 7th December, 1983, notice is hereby given that the rate of interest upon the above Notes has been fixed at 9% per annum and that the Coupon amount payable on 8th June, 1985, against Coupon No. 3 will be K.D. 225,942.

By: The National Bank of Kuwait S.A.K.,  
Head Office: P.O. Box 95, Safat, Kuwait.  
Fiscal Agent  
3rd December, 1984.



U.S. \$50,000,000

## Kone Corporation

Floating Rate Notes Due 1994

In accordance with the provisions of the Notes, notice is hereby given that for the Interest Period from 7th December 1984, to 7th June 1985 the Rate of Interest will be 9% per annum.

The interest payable on the relevant Interest Payment Date, 7th June, 1985, will be US \$499.24 for each US \$10,000 principal amount of the Notes.

Agent Bank:

Morgan Guaranty Trust Company of New York  
LondonTHE  
CHASE MANHATTAN  
CORPORATION

US\$400,000,000

Floating Rate Subordinated Notes due 2009

For the three months  
5th December, 1984 to 5th March, 1985  
the Notes will carry an interest rate of 9% per annum,  
per annum with a coupon amount of  
US\$239.06 per US\$10,000 Note, payable  
on 5th March, 1985.

Bankers Trust Company, London  
Agent Bank

U.S. \$150,000,000

Midland International Financial Services B.V.

(Incorporated with limited liability in the Netherlands)

Guaranteed Floating Rate Notes 1992  
Convertible until June 1985  
into 9% Guaranteed Bonds 1992Guaranteed on a subordinated basis as to payment of principal,  
premium (if any) and interest by

Midland Bank plc



For the six months from 7th December 1984 to 7th June, 1985  
the Notes will carry an interest rate of 9% per annum.  
On 7th June, 1985 interest of U.S.\$249.02 will be due per  
U.S.\$5,000 Note for Coupon No. 10.

The Conversion Interest Amount applicable to Notes which  
are presented for conversion on or before 1st June, 1985  
will be U.S.\$27.71 for each U.S.\$5,000 Note and this will be  
payable on 28th June, 1985.

Agent Bank: Morgan Guaranty Trust Company London



INTL. COMPANIES & FINANCE APPOINTMENTS

Chris Sherwell on the collapse of Singapore trader Hoo Thy Red faces at Abalone Man's fall

NINETEEN BANKERS in Singapore, all but four of them foreign, face a prospective loss totaling almost \$310m (U.S.\$452m) because of last week's collapse of Chop Hoo Thy, a well-established import-export house run by a local Chinese trader.

was invested, was also a major factor. Hoo Thy traded mainly in canned foodstuffs and was best known for its line in abalone. It was run as a sole proprietorship by Mr Ng Khway Tat, known locally as the "Abalone Man." His father, Mr Ng Choon Sea, founded the firm in 1946.

Senior post at Fairey Holdings

Mr Graham S. Clarke, financial director of FAIREY HOLDINGS for the last four years, has been appointed managing director of its energy and military engineering division. He will become chairman of the major companies in the division including Fairey Engineering, Stockport, and Elequip, Leicester. Fairey Holdings is the engineering sector of Pearson.

He will also be appointed a director from January 1. Mr Nigel Davies has been appointed managing director of NORBAIN DATA. He was UK marketing manager at Mannesman Tally.

HK property group ahead

HONG KONG & KOWLOON Wharf and Godown Company, the property group controlled by shipowner Sir Yue-Kong Pao, yesterday posted unaudited after-tax profits of HK\$214.3m (U.S.\$27.4m) for the six months to September - 28.4 per cent up on the HK\$166.9m earned in the six months to June 1983.

Cement glut hits earnings at two MUI subsidiaries

TWO LISTED subsidiaries of the diversified Malaysian United Industries group, involved in the production and marketing of cement, have reported lower earnings due to a cement glut in Singapore and to a lesser extent in Malaysia.

NOTICE OF EARLY REDEMPTION Svenska Handelsbanken US\$35,000,000 Floating Rate Notes Due 1987

Fraser and Neave to sell holding in Malaya Glass SINGAPORE - Fraser and Neave, and its 38 per cent associate, Malayan Breweries, plans to sell its entire holdings, some 48 per cent, of Malaya Glass Factory for 27.8m ringgits (U.S.\$11.5m), or 3.20 ringgits a share.

Mr Stuart McDonald has been appointed to the board of LONDON AND EDINBURGH TRUST as joint managing director. His responsibilities will include the financial and treasury functions and the financial services division, of which he becomes chief executive.

BASIX Corporation (Incorporated with limited liability in the State of New York, United States of America) Authorised 20,000,000 Shares of Common Stock of US\$ 0.05 par value

CRÉDIT D'ÉQUIPEMENT DES PETITES ET MOYENNES ENTREPRISES US\$200,000,000 Floating Rate Notes Due 1988

Brasilvest S.A. Net asset value as of 30th November 1984 per Cr\$ Share: 3.103.399 per Depository Share: U.S.\$9,940.81

NEDLIBRA FINANCE B.V. US\$30,000,000 Guaranteed Floating Rate Notes due 1988

SCUSA Inc. has acquired Holmes Protection Inc. Kleinwort, Benson Limited December 6, 1984

SPECTROS INTERNATIONAL plc announces that it has completed a private placing of 12,666,666 Ordinary Shares at 65p per share and the acquisition of the Analytical Instruments Group from Kratos Inc.

Credit Suisse LONDON BRANCH Six Months Tranche Certificates of Deposit Yen 10,000,000,000



THE PROPERTY MARKET BY MICHAEL CASSELL

Amey in £75m shops plan

THE RUSH to develop giant regional shopping centres around London has been joined by Amey Roadstone, which is planning a £75m retail development alongside the M25 motorway in Berkshire.

The proposals centre on a series of worked-out gravel pits at Rye End, near Wraybury. About 80 acres of the 260-acre site will be given over to shopping and the remainder will provide sports and recreation facilities for the local community.

Earlier this year, Capital & Counties and Town & City announced competing plans for regional shopping and leisure centres at Thurrock, on the eastern side of the capital. The proposals, likely to cost between £75m and £100m, are almost certain to be called in for a public inquiry.

ARC announced yesterday that its own proposals will form the basis of a planning application, in the next few weeks, to the Royal Borough of Windsor and Maidenhead. The group wants to develop over 1m sq ft of retail floorspace and says it is confident it will attract major store groups to the site. Medium-sized and small shop units will also be provided.

When the M25 motorway is completed it is estimated that around 1.5m shoppers will be within a 20-minute drive of the planned development and ARC says it is prepared to fund improvements to existing access

roads in order to cope with the additional traffic. About 3,000 new jobs could be created.

ARC ceased gravel extraction on the site in 1979, after 40 years production, and total development costs include the extensive infilling of the water-filled gravel pits. The group says the 130 acres not occupied by the shopping centre will provide sports and recreation facilities for the local community.

ARC will not yet comment on funding arrangements but it seems likely that Consolidated Gold Fields, its parent company,

will provide the required finance.

It was also disclosed yesterday that the Carroll Group has been selected to develop a retail leisure and business park on the site of the former Croydon B power station off Purley Way.

The £65m project, which is subject to the formal approval of the Central Electricity Generating Board, involves the redevelopment of nearly 50 acres of land. Work will begin within the next two or three years, as soon as demolition of the power station is complete.

Asda signs for the Den

MILLWALL FOOTBALL CLUB has signed contracts with Asda for the development of a superstore on a six-acre site adjoining the Den, the south-east London club's ground. The site has been purchased by Millwall and planning permission is now being sought.

The deal ends over five years of negotiations on proposals to redevelop the Den, involving Millwall and Asda. If the development goes ahead, the entire ground will undergo a comprehensive modernisation and improvement programme. The proposed store will extend to around 70,000 sq ft and there will be parking for 540 vehicles.

Mr Alan Thorne, chairman of Millwall, said yesterday: "Our fans have had to put up with

poor facilities for years and the new look Den will enable them to watch games in comfort as well as giving a huge morale boost to the whole club.

"The final decision rests with the planners and I hope they will grasp the opportunity with both hands by allowing the development to proceed."

Higgs and Hill Properties has sold the freehold of its recently completed Crown Business Centre, West Drayton, to Scottish Amicable Pensions Investments for about \$42.5m. The estate, close to the proposed Stockley Park development, produces an annual income of over £21,000. Peter Taylor acted for Higgs and Hill. SCAMPI were advised by Hoddell Stotesbury.

ICI's search leads back to Millbank

THE INTENSIVE but abortive search by Imperial Chemical Industries for an alternative London headquarters building seems strangely at odds with recent images of a property market bogged down in surplus office space.

Despite a two-year investigation, in which ICI took a look at new fewer than 100 possible buildings or sites, it has finally decided there is no place like home.

The group was prepared to move and anxious to move but, at the end of the hunt, was forced to conclude that it could find nowhere more suitable than the Millbank building it has occupied for the best part of 60 years.

According to Malcolm King of King and Co, the agents who assisted ICI in their search: "The outcome speaks volumes about the state of the central London office market. Our efforts were confined to Victoria and the West End, both markets in which the continuing oversupply of space has been the predominant theme."

"But when confidence drained away from the development market it bit big schemes in particular. Problems over obtaining sizeable planning consents have added to the difficulties and the end result is an extremely limited choice of larger, modern properties."

The situation has been repeated in the City, where large chunks of floorspace are now extremely difficult to locate and are likely to become increasingly rare if current thinking within the City Corporation is translated into planning reality.

As for ICI's dilemma, King says none of the buildings considered were suitable and that the group simply had no alternative but to consider the modernisation of their existing Millbank complex.

Among the buildings on the final shortlist were Victoria Plaza, the 200,000-sq-ft office complex developed by Greycoat London and Norwich Union. It was considered too large and—like many other prospective tenants—ICI found the anonymous access unattractive. Other contenders were New Buckingham Court, the Chesterfield Properties' scheme in Buckingham Palace Road which ICI believed it would have trouble adapting to its own use, and the United Real Property scheme in Victoria Street, considered to be too small.

Now the group will isolate about 130,000 sq ft of floorspace in the south wing of Imperial Chemical House and modernise it for its own use. The remaining 150,000 sq ft will be developed to provide office accommodation that will be let or sold.

Norwich Union picks up a plum

NORWICH UNION seems to have got the better end of the deal in its purchase of Plumtree Court, the stylish City of London office building developed by Trafalgar House.

Beyond confirming this week that a widely expected sale has been agreed, Trafalgar has not been anxious to provide any further details of a transaction which represents one of the biggest investment deals seen in the City this year. Disappointment at the final outcome may be partially behind some of its reluctance to spell out the facts.

But it is now clear that Plumtree Court, completed in 1983 on the site of the former London

Evening Standard offices off Shoe Lane, has gone to Norwich Union for a figure thought to be a little over £45m. The deal shows a yield in the region of 6.75 per cent. Current prime office yields stand about 2 percentage points lower.

The 190,000 sq ft building was let earlier this year to Coopers & Lybrand, the accountants, at a rent of nearly £17.25 a sq ft and has been on the investment market at an asking price approaching £60m.

Despite the building's undisputed pedigree—together with the high calibre of its tenant—it has clearly not been an easy package to sell. The institutional market for properties of

this size has been extremely limited and the building's off-pitch location, close to Ludgate Circus, narrowed the field of interested buyers still further.

One City agent said the transaction confirmed there was still a market for buildings of its size and type but that owners wanting to sell in the current market had to expect a discount. "Norwich Union are getting a good buy," he added.

For Trafalgar, the deal represents the second major City disposal within a few weeks, following the sale—again to Norwich Union—of 83-86 Fenchurch Street for around £11.5m.

Cussins gets down to the Houndsditch

CUSSINS PROPERTY is to redevelop the former Houndsditch store in Peckham High Street. It has purchased the 4-acre site from Argyll Stores (Properties) and intends to develop 93,000 sq ft of shopping space and 200 car parking spaces.

The £10m development will be undertaken in conjunction with Argyll who have agreed a 35-year lease of the anchor store for Presto, which already has a store on the site. The entire scheme, to be developed in two phases, will be completed in 1987 and Cussins anticipates an initial rental income of over \$925,000 a year.

Landseer Property has purchased a 1.1 acre site at the junction of Kenning High Street and Earls Court Road from Illingfield Securities and intends to develop 32,000 sq ft of offices, 21,000 sq ft of unit shopping and 37 residential units. Chestertons are retained as agents.

Crowgap Developments, in association with Royal Life, has completed and let its 38,000 sq ft Cambridge Office scheme to Systems Designers, the computer company. The tenant for Pembroke House will pay an annual rent of \$370,000. Letting agents for the property, with an investment value of £5.5m, were

Weatherall Green and Smith, St Quintin and Messinger May Everstock.

Eagle Star and Cruden Developments have confirmed that Hewlett Packard are taking Central Square, Uxbridge, the 120,000 sq ft office scheme, at rent of around \$14 a sq ft. Hampton and Sons are to dispose of four surplus floors.

The London borough of Barnet is to secure a 28 year lease from British Ever Ready on Venture House, the 77,500 sq ft office building in High Road, Wunsthorpe, D. E. and P. Levy arranged the assignment, with a passing rent of \$575,000 a year.

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**BIRMINGHAM - THE BIG HEART OF ENGLAND**



UK COMPANY NEWS

Bass tops £218m and lifts its market share

FURTHER GROWTH was achieved by Bass over the second six months which enabled the brewing and leisure group to lift its profits before tax to a record £218.4m for the six weeks to September 30, 1984.

which take in Coral Leisure and Pontin's, accounted for £571.3m (£494.8m). Respectively, the operations returned trading profits of £199.3m (£164.9m) and £36m (£32.4m).

on retail interests and a quarter on pubs. The number of properties within the Bass estate dropped over the year by 86 to 7,520. Overall, the workforce dropped by some 2,000 to 69,192. Of the total 1,500 jobs were lost on the non-retail side.



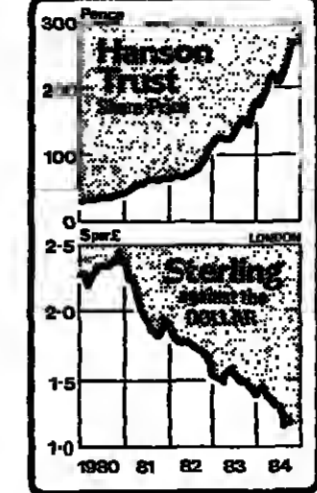
Mr Derek Palmer... in favour of flexible hours

business, although he could not put an exact figure on its cost. Holiday results overall showed an improvement but were not up to previous expectations.

as a whole was restricted in its takeover ambitions because of its size and "on the leisure side we have to be very selective because there is a lot of rubbish about".

Hanson comes of age with 86% rise

ANNOUNCING AN increase of 86 per cent in taxable profits for the year to end-September 1984, the 21st year of trading, Lord Hanson, chairman Hanson Trust, says that the growth rate of earnings and dividends was more than twice the UK industrial average.



of the surplus was earned in the tenth consecutive year of the company's growth since the acquisition of U.S. industries Inc., Hanson's largest purchase.

Fourth quarter rise pushes BOC profit to record £138m

FOURTH QUARTER profits of £37.1m, against £31m, have pushed full year results of the BOC Group to £137.5m pre-tax, a jump of 44 per cent over the previous £95.5m, and are in line with the forecast of a substantial increase.



Richard Giordano, managing director and chief executive of BOC

was adversely affected by the strong dollar, "which has favoured Japanese and European competitors". However, both the graphite plant in South Carolina and the coke producing facility in Seadrift, Texas, are operating effectively, while the specialty carbon products business had an excellent year.

GUS grows to £105m at halfway

MAIL order, Burberrys and the finance and property operations of the Great Universal Stores concern all showed an improvement and lifted taxable profits for the half year ended September 30 1984 to £105.11m, compared with £92.35m.

Pauls slips and sees little change ahead

Pauls, a maltster, flour miller and manufacturer of animal feeding stuffs, is not expecting a significant change in profits for the year to end-March, 1985.

growing and agricultural operations are already recovering. Milk production quotas imposed last spring seriously reduced cattle feed sales in the opening half. Pauls Agriculture acted promptly to reduce its cost base and is well on the way to recovery.

production by cutting 10 per cent off the animal feed workforce and in malt it reacted to the fall in barley prices by closing two of its eight UK maltings. Meanwhile, the pig-rearing business, which were losing money in the trough of the cycle last year, are now in profit.

Allied Colloids profit margins show increase

WITH SALES 30 per cent higher at £48.57m, against £37.64m, Allied Colloids Group, maker of industrial chemicals, raised pre-tax profits by 40 per cent from £7.61m to £10.65m for the six months to September 29, 1984.

Penny and Giles plans 23.5% placing on USM

Penny and Giles International, a company which makes advanced control and measurement instrumentation, yesterday announced details of its imminent quotation on the Unlisted Securities Market.

RKP back in black at halfway

Routledge & Kegan Paul, publisher, continued its recovery programme in the six months to September 1984 with a return to pre-tax profits of £104,590 against a comparable £49,230 loss. Group turnover rose from £2.56m to £2.93m.

Edbro Holdings

A drop of some 9 per cent in pre-tax profits at Edbro (Holdings) for the first half to September 30 1984 is described by the directors as somewhat disappointing. Profits of this engineer fell from £1.1m to £1m on turnover of £9.2m (£9.9m). Second-half profits are expected to be not less than the first half of £0.4m (£0.5m) there was an extraordinary debit of £3.1m (credit £0.7m), leaving £122.2m (£63.5m) available for distribution.

Wagon Ind. rises midway

WITH MOST of the group's UK companies having a slightly better first half compared with last year, pre-tax profits of Wagon Industrial Holdings, material handling and storage, office equipment and engineering, expanded to £2.46m for the six months ended September 30 1984, against £1.65m.

£2.9m to £3.85m, but the overall result was affected by poor figures from Vinco, the French subsidiary. The directors, however, now say this company has improved on its position during the first six months.

Table with columns: Company Name, Current payment, Date of payment, Current dividend, Total dividend for year, Total dividend last year. Includes Allied Colloids, BOC, Brit & Amer Film, British Tar, Edbro Holdings, Ferranti, Fine Art, Finlandia, GUS, Gresham House, Hanson Trust, Holden Hydromat, Kynsley, Nottingham Brick, Paula, Prop & Reversionary, Wagon Ind.

Acquisition of Industrial Waste Service, Inc. by Attwoods plc and 2 for 1 Rights Issue to finance the Acquisition. ROBERT FLEMING & CO. LIMITED acted as financial adviser in this transaction and underwrote the Rights Issue.

COMPANY NEWS IN BRIEF

Turnover of John Finlan, building designer and contractor, more than doubled from £1.68m to £3.65m for the six months to September 30 1984. Taxable profits fell to £69,539, compared with a previous £102,579. Earnings per 10p share were 1.25p (2.15p) and the interim dividend is actively lifted to 1.5p (1.5p adjusted).

Turnover of British Tar Products, bulk storage, chemical manufacture and merchandising concern, increased from £730,000 to £921,000 for the six months to September 30, 1984. Turnover rose to £131.61m against a revised £129.2m.

BOARD MEETINGS: Music, Reliant Motor, Trans-Oceanic Trust. FUTURE DATES: Anderson Strathclyde, Dec 12; Berkeley Group, Dec 11; Hampton Gold Mining Areas, Dec 17; Debra, Dec 18; May and Hazell, Dec 17; Scottish and Newcastle Brew, Dec 17; Wainhouse, Dec 19; Finlay, Dec 17; GT (Aals) Sussing Fund, Dec 17; Industrial, Dec 17; Thermal Synthesis, Dec 17; Finance: Adams Investment Trust, Dec 17; Hunslet, Management Agency and Dec 14.

The Lombard 14 Days Notice Deposit Rate is 9 3/4%. The Lombard Cheque Savings Rates are 9 1/4% and 7 1/4%.

Table with columns: Currency, Yield. Includes Sterling, Australian Dollar, Canadian Dollar, Dutch Guilder, Danish Krone, Deutsche Mark, Belgian Francs (FIN), French Francs, Hong Kong Dollar, Italian Lira, Singapore Dollar, Swiss Franc, US Dollar, Japanese Yen.

LADBROKE INDEX Based on FT Index 906-910 (+3) Tel: 01-427 4411



UK COMPANY NEWS

**Ferranti ahead to £18.5m and order books 25% higher**

TURNOVER of electrical and electronic engineer, Ferranti, rose from £207.2m to £282.5m in the half year to September 30 1984 and pre-tax profits were up to £18.5m, compared with £14.8m.



Earnings per 10p share are stated up from an adjusted 2.52p to 3p and the interim dividend is effectively raised to 0.52p net, against 0.44p after restatement for the subdivision of shares. Last year's total was equivalent to 1.32p.

The order book stands at a record level, up by over 25 per cent on the position a year ago. Notably, the company has been selected as the prime contractor for a new sonar to equip Royal Navy frigates.

Operating profits increased from £18.3m to £20.1m. Investment in improved plant and facilities was ahead 25 per cent to over £18m in the first half. In April, TRW Controls Corporation in Houston — now known as Ferranti International Controls Corporation — was acquired for almost US\$10m. This company contributed \$0.6m to the half-year operating result.

Net interest payable, less investment income, was up from \$0.5m to \$1.6m. Tax took \$5m (restated \$3.8m) and after minority credits of \$0.4m (\$0.6m) and preference dividends, the attributable surplus came out

ahead from £11.2m to £12.3m, before extraordinary items.

In September, the small California based business, Spectrum Ceramics, was sold. The board says the market for its specialist products was developing more slowly than anticipated, with the result that the business was taking unacceptably long to move into profit. Its operating loss, included in the group result, was \$0.5m.

See Lex

**Central & Sheerwood losses climb to £4.8m**

EXCEPTIONAL losses of £4.26m have been reported by Central and Sheerwood resulting in a pre-tax deficit up from £415,000 to £4.79m in the first half of 1984. However, Lord Eden, the chairman, says that he is confident that most of the special action needed to deal with problems inherited from previous years has been taken.

He reiterates the view, made at the annual meeting last July, that the group will return to profitability in 1985.

Lord Eden says that the group position is likely to be "held steady" in the second half of 1984 although it is possible that some further provisions may have to be made in the period. In the last full year pre-tax losses came to £4.49m on turnover of £90.31m.

Results for the six months show the impact of "house cleaning" operations initiated by the new management team formed at the beginning of the year. At the trading level, profits came to £265,000 (£216,000).

The substantial figure for exceptional items included foreign exchange losses largely as a result of previous failure to buy dollars forward to cover payments for component purchases; major adjustments to stock valuation at Ransomes and Rapier; provisions on overseas debts and redundancy costs at White-Young; and losses on discontinued agencies at Exoropa.

There is again no interim dividend — the last payment was a final 0.3p for 1982-83. First-half losses per share are shown as 3.05p (1.08p).

The disposal of Trianco Redfyrre at the end of 1983 mainly accounts for lower group turnover of £27.98m against £40.02m. With Ransomes & Rapier virtually breaking even in the first half, Lord Eden says that White-Young — where special measures are in hand — was the only other subsidiary remaining in the group to show a trading loss.

A breakdown of trading profit and turnover shows: engineering £238,000 (£1,03m) and £30.5m (£33.28m); distribution £253,000 (losses £102,000) and £3.94m (£3.5m); printing and publishing £161,000 (£113,000) and £2.72m (£2.35m); financial services £329,000 (£20,000) and £988,000 (£890,000).

A further £1.16m in extraordinary costs included the cost of closing White-Young's unprofitable London operations and provision for Newton Chambers Engineering, leaving the attributable deficit up from £512,000 to £5.22m.

**Nottingham Brick jumps 70% and calls for £1.5m**

AT THE same time as announcing a 70 per cent lift in 1983-84 profits, Nottingham Brick is raising via a rights issue, £1.47m net of expenses, which will largely finance expenditure at the company's Nottingham factory.

The rights is on the basis of one new ordinary 25p share for every 7 ordinary held on November 28, at a price of 115p per share. The issue has been underwritten by Singer & Friedlander.

Pre-tax profits in the year to September 30 surged ahead from £1.05m to a record £1.76m, on turnover 23 per cent higher at £8.85m, against £7.2m. The first two months of the current year have seen a continuation of recent high levels of trading.

The directors state that the increased range of products from the company's three brick factories has achieved an improved market share in a largely static market.

After-tax profits rose from £783,000 to £1,056m giving stated earnings per share of 13p (7.5p). Adjusting for the scrip and subdivision of shares last February, the dividend total is lifted from

3.5p net to 5p, with a final of 3.5p. The directors intend to at least maintain the total on the increased share capital for the current year.

The company is currently installing plant with larger capacity at the Nottingham factory, at a cost of £440,000 and this installation should be completed by March 1985.

Because the directors believe there will be a continued growth in demand for the range of facing bricks produced at Nottingham and Thurston, they have decided to increase production further at the Nottingham factory. This will be by the construction of a fourth kiln and associated dryers, at a cost of some £1.75m.

The directors are satisfied that the company owns adequate clay resources at this site. It is intended that construction should start next summer and that the increased output resulting from this capital expenditure be sold through the existing sales structure.

● **comment**  
Driven by bid speculation in a narrow share market Nottingham Brick's price has doubled this year. Even so yesterday's trading results lent some support to the recent trend. Though unquantified, volume growth must have been running fairly high for price increases have been more or less in line with inflation and Nottingham looks to have increased its share of the facing brick market which in turn is taking a larger proportion of the total brick market. Looking to the future the chairman's statement strikes a confident tone — though profits growth will be nothing like this 70 per cent — and the modest rights issue is being made for all the right reasons, to increase manufacturing capacity. So Nottingham appears as a solid, if relatively small, player in the building materials sector putting up a commendable performance. But it is arguable whether that should add up to its current premium rating — a 150 of 13.3 at 140p. Despite the speculation Nottingham is not that obvious a bid target and investors looking for the next move in the gradual concentration of power in that sector could do better to search elsewhere.

**A. Beckman PLC**  
Fabric Merchants and Converters

**Increased Turnover and Profits**

Year ended June 30	1984 £m	1983 £m
Turnover	13.9	13.3
Profit before tax	1.32	1.21
Profit after tax	0.82	0.74
Earnings per share	8.0p	7.2p

Mr. S. Beckman, Chairman, reports:

- Policy of concentrating management skills in textiles while strengthening our asset base through investment in property will continue.
- Income from properties has increased beyond our original estimates.
- Dividends for the year are maintained at 5.73p per share. With tax credit total is equivalent to 8.19p.

Copies of the Annual Report are available from the Secretary, 111-113 Great Portland Street, London W1N 5FA.

**Granville & Co. Limited**  
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**Over-the-Counter Market**

1983-84 High Low	Company	Price	Gross Yield	P/E	Fully
142 120	Ass. Brit. Ind. Ord.	137	8.8	4.5	7.6
152 117	Ass. Brit. Ind. CULS	147	10.0	6.8	—
78 52	Airprung Group	52	8.4	12.3	5.7
132 21	Armitage & Rhodes	41	2.9	7.0	5.1
132 57	Bayden Hill	131	2.8	2.6	13.2
58 42	Bay Technologies	44	3.5	6.0	5.1
201 173	ECL Ordinary	175	12.0	6.9	—
152 117	ECL 11p Conv. Pref.	118	15.7	13.3	—
800 100	Carborundum Ord.	800	5.7	0.7	—
84 84	Carborundum 7.5p Pl.	84	10.7	12.8	—
249 84	Cleuson Group	82	—	—	—
73 45	Barobor Services	57	6.5	6.7	6.4
240 76	Frank Horrell	240	—	—	9.2
206 75	Frank Horrell P.O. 87	206	6.8	4.8	3.3
69 25	Fredrick Parker	27	—	—	—
48 32	George Blair	48	—	—	—
80 32	Ind. Precision Castings	32	2.7	8.4	3.8
218 200	Iola Group	200	15.0	7.5	14.4
124 51	Jactane Group	108	—	—	—
295 213	James Burrough	275	13.7	6.1	3.8
93 83	James Burrough 9p Pl.	83	12.9	13.9	—
72 71	John Howard and Co.	72	+1	5.0	3.9
147 100	Linguaphone Ord.	139	—	—	—
100 98	Linguaphone 10.5p Pl.	98	15.0	15.8	—
548 225	Mimbus Holding NV	548	+4	3.8	0.7
178 31	Robert Jenkins	32	5.0	15.8	43.1
74 33	Serentons	33	5.7	17.3	17.4
129 51	Taday & Carllile	57	—	—	5.3
444 370	Travian Holdings	370	4.3	1.2	21.0
26 17	Unilock Holdings	25	1.3	5.2	12.1
32 15	Walker Alexander	88	7.5	8.5	5.7
276 226	W. S. Yeates	226	17.4	7.7	5.4

Prices and details of services now available on Prestel, page 48146

**Process Systems of U.S. to get London quotation**

BY WILLIAM DAWKINS

THE LATEST U.S. company to join the London stock market is Process System, Inc, a North Carolina-based maker of micro-electronic control and recording equipment, which is staging an offer for sale of its shares.

Process Systems supplies the U.S. electricity supply industry with solid state recorders. These log the quantity and time of use of electricity consumption by individual customers. Data can be retrieved by telephone or hand-held microcomputers made by Process Control.

The recorders, which are designed to replace less efficient electro-magnetic devices, are used to measure peaks and troughs of demand, thus helping utilities to determine rate levels, all of which have to be authorised by politically elected

public service commissions.

Merchant bankers J. Henry Schroder Wagg have underwritten an offer for sale of 16m shares at 29.8 pence, of the enlarged equity — at 92p each to raise £13.94m after expenses.

The U.S. directors and other shareholders are selling £8.2m worth of shares, and the balance represents new money for the company. Process Systems is capitalised at \$49.4m at the offer price.

Net income has grown at an average annual compound rate of over 100 per cent during the past four years and is forecast to rise from \$1.5m (£1.25m) to \$2.9m in the year to next June. De Zoete & Bevan are the company's stockholders. A full prospectus will be published on Monday.

**Fine Art trebles profits despite higher interest**

● **comment**

Given that Fine Art is not a company that gives much away in terms of information and that the greetings cards business is heavily biased towards the second half, it is extremely difficult to project accurately from these half-year figures. If anything, they suggest that an otherwise buoyant trading environment is going to be offset by a hefty interest charge this year. For one, part of the consideration of the Selective acquisition was cash and the company has been stocking up ahead of the important Xmas season. The group has also been doing some quite substantial expansion at Early Learning, the other new acquisition. So, against the background of progress at the trading level, pre-tax profit may be little more than 15m, which will mean that profits will have recovered to 1980 levels. Here, the prospective multiple after tax at 28 per cent is over 12 fully diluted at 79p, down 2p — a rating which is also anticipated the longer term potential of the recent acquisition strategy.

Fine Art Developments, Britain's largest maker of greetings cards, has almost trebled taxable profits in the half-year ended September 30 1984, despite a much higher interest charge. Mr. D. T. Barnes, interest charge, is confident of a satisfactory outcome for the year.

The mid-way pre-tax surplus was £462,000, up from £155,000, after a deduction for interest £220,000 higher at £1.91m. The figures include, for the first time, the results of the Selective Group, acquired last December for £13m.

The interim dividend is maintained at 11p net per 5p share, with stated earnings per share rising from 0.198p to 0.356p. In the last full year, when the group doubled profits to £3.36m, the total payout amounted to 5p.

Trading continues to be buoyant in the current half, says the chairman.

Tax amounted to £115,000 (£39,000), leaving net profits of £347,000 against £116,000. The dividend will account for £713,000 (£843,000).

There is again no interim dividend — the last payment was a final 0.3p for 1982-83. First-half losses per share are shown as 3.05p (1.08p).

The disposal of Trianco Redfyrre at the end of 1983 mainly accounts for lower group turnover of £27.98m against £40.02m. With Ransomes & Rapier virtually breaking even in the first half, Lord Eden says that White-Young — where special measures are in hand — was the only other subsidiary remaining in the group to show a trading loss.

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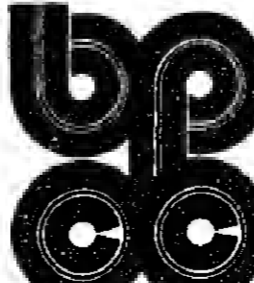
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**BPCC Answers**

**Waddington Shareholders' Questions**

- Q. Why will the Offer not be extended? Why doesn't BPCC offer more?**
- A. The Waddington Chairman refused to negotiate any higher price. Surely unfair to shareholders. Intransigence seems to be catching in Yorkshire!**
- Q. Mr. Watson says BPCC offers no premium for control. Why?**
- A. We are obviously offering a generous premium. Our offer is worth 9.4 times our forecast of Waddington's earnings based on a tax charge of only 15%. This is 10% above the price earnings ratio on the average Packaging and Paper share, which is calculated on largely historic earnings. (\*See below).**
- Q. What happens to the Waddington share price if the offer fails?**
- A. You don't need to be told that if our offer lapses next week — an offer which has largely fuelled the price rise — the price is likely to drop. The highest price which Waddington and its advisers thought they could place our holding in October 1984 was 410p per share.**

- Q. Mr. Watson seems worried that if the offer succeeds, Waddington would be controlled by the Pergamon Holding Foundation of Liechtenstein. Need we worry?**
- A. Certainly not. There is nothing wrong in this. P.H.F. controls Pergamon Press and through Pergamon Press, BPCC and Hollis Bros. and E.S.A. These companies and thousands of their shareholders have all done very nicely, thank you.**
- Q. Can you explain the 14 September, 1984 revision of the Waddington Executive Directors' employment terms? They have awarded themselves an average fixed remuneration of about £200 extra a week each.**
- A. You should ask them.**
- Q. What shall we do?**
- A. Accept the offer, and nail down your profit — a near fivefold profit if you owned Waddington shares before any bid was made in 1983. Not a bad profit by any standards.**
- 500P PER SHARE CASH IS VERY GENEROUS**  
**THIS OFFER WILL NOT BE EXTENDED AFTER 3.00 PM ON THURSDAY 13 DECEMBER\*\***  
**ACCEPT IT NOW.**



If you require a form of acceptance and transfer, telephone Henry Ansbacher at 01-283 2500.

\*\*Unless the Ordinary Offer has become or been declared unconditional as to acceptances by then.

\*On 5 December 1984, the latest practicable date before the printing of this advertisement, the FT Actuaries Index for Packaging and Paper shares stood at 269.02 and had a price earnings ratio of 8.53, and the all-Share Index stood at 568.82.

The directors of BPCC plc (including those who have delegated detailed supervision of this advertisement) have taken all reasonable care to ensure that the facts stated and opinions expressed herein are fair and accurate and each of the directors accepts responsibility accordingly.



BIDS AND DEALS

MINING NEWS

Green light for Johnson Matthey deal

BY RAY MAUGHAN

SHAREHOLDERS in Johnson Matthey voted overwhelmingly in favour of the vital capital injection proposal at the metal refining and speciality group's extraordinary meeting.

Shareholders had been warned of the consequences of turning down the proposed £25m convertible preference share issue, particularly in the light of the continuance of the £25m standby loan facility, and accordingly the resolutions met no resistance on a show of hands and no objection would name when the required poll was taken.

The Johnson Matthey board was able to give shareholders guidance as to whether they

should subscribe to the issue, and the results of the subscription will probably not be revealed until early next week.

At the minimum, the holding of largest individual shareholder, Charter Consolidated, will be raised from 27.9 per cent to 33.1 per cent and, at most, to 46.12 per cent if all other shareholders turn the issue down.

Given the insistence of the institutional group, holding 28 per cent of the Johnson Matthey equity, that it should also have the right to subscribe at the equivalent ordinary share price of 56p per share, it is not expected that Charter will come out at anything like the top

limit of its shareholding range. Closely questioned at the meeting early yesterday morning, the acting chairman, Mr Neil Clarke, who is also chief executive of Charter Consolidated, was unable to give anxious private shareholders many detailed assurances over Johnson Matthey's future.

He said that "Johnson Matthey is profitable and has the base from which it can continue to be profitable. But it is dangerous to be confident." He felt that the group's revival will be accomplished, but warned that "it won't be a short or an easy task."

As to the negotiations with British Petroleum, which is

seeking detailed information before deciding whether or not to launch a bid for the group, Mr Clarke said that talks have been continuing but the details required by BP from outside trading partners such as Rustenberg the platinum group linked very loosely with Charter through the Oppenheimer group of companies, has not yet been obtained.

It was not true, Mr Clarke maintained, that Charter had sold a single share in Johnson Matthey and he was fairly certain that none of the other South African companies connected with Oppenheimer had sold either, although admitting that he had "no direct know-

ledge." While Coopers and Lybrand prepares a "fundamental review" of Johnson Matthey's strengths and weaknesses, and another firm of accountants, Thomson McLintock carries out a full enquiry into the events leading up to the sale of Johnson Matthey's failed banking subsidiary, the share price was exposed to further weakness yesterday and came back by 4p to 68p.

Similarly the Charter shares price gave up 13p to 18p and Charter's 67 per cent owned subsidiary Cape reacted further to the sale of its insulation businesses with a 10p drop to 37p.

Sir Hugh Fraser sells 1.6m share block

By John Moore

SIR HUGH FRASER, the deposed chairman of the House of Fraser stores group, has sold a remaining block of 1.6m shares owned by the Fraser Foundation in the Fraser group.

The block of shares was sold earlier this week at a price of 50p per share in a deal worth £4.8m, which represents around 1 per cent of the share capital of the Fraser group.

Sir Hugh Fraser said yesterday that the shares had been sold through Carswell and Com-

Recovery at Wankie paves the way for dividend resumption

A RECOVERY in fortunes is paving the way for Wankie Colliery to return to the dividend list. But because of the need to retain profits to meet loan repayments of £211.5m (£8.5m) the Anglo American group's Zimbabwe coal producer is to defer consideration of a payment until results for the full year to February 28 are available.

Profits for the first six months expanded to £22.1m, equal to 5 cents per share, from £264,000 in the poor first half of 1983-84. Furthermore, the latest profit was struck after a sharply higher depreciation charge of £26.6m against £21.7m year ago and interest payable of £25.2m compared with an interest credit last time of £293,000.

It is pointed out that as from March 1984 the interest will be payable on money borrowed to finance the now completed open-cast expansion together with depreciation charges which will not be adversely affected by the reduction in sales.

Export sales were much better than expected mainly because some orders were not likely to recur. After allowing for the appropriate allocation of interest and depreciation these sales realised a profit of £21.1m.

Wankie passed its dividend in 1983-84 for the first time in many years—partly because of the need to meet loan repayments and partly because the expansion at the new Hwange Power Station: Wankie's open-cast expansion was designed to meet coal demand by the power station.

Sales of power station coal thus dropped to 118,000 tonnes in the latest half-year from a previously expected 397,500 tonnes.

However, the Zimbabwe Government has adjusted the price paid for Hwange coal so that the mine's financial results will not be adversely affected by the reduction in sales.

Providence Capitol to sell its UK life offshoot

BY ERIC SHORT

THE U.S.-based Providence Capitol is putting its UK life company subsidiary, Providence Capitol Group, up for sale.

The company, in announcing its decision yesterday, revealed that it has received a number of approaches in recent months for selling its UK subsidiary. The final decision was taken in regard to the wide-ranging changes currently taking place in the UK financial services market.

S. G. Warburg & Co is being retained to advise on the sale and it revealed that the inquirers have included both UK as well as U.S. institutions. U.S. composite and life companies are showing a growing interest in the UK life market, which has been extremely profitable in recent years and has expanded

rapidly.

Warburg is having an actuarial valuation of Providence Capitol Group undertaken by the consulting actuarial firm of Tillinghast Nelson and Warren and its report will be available to prospective purchasers in due course.

The company is roughly equivalent in size to Cannon Assurance which was sold earlier this year for just over £40m.

Providence Capitol Group was established in 1968 as the life company arm of the old Slater Walker conglomerate. Since that broke up, the company has had a succession of owners—the latest, Providence Capitol, being formed by a management buy-out of the insurance interests of the Gulf & Western group.

Maxwell steps up pressure

MR ROBERT MAXWELL'S British Printing and Communication Corporation today stepped up the pressure in its £44.2m takeover bid for the games and packaging group John Waddington.

In newspaper advertisements it says that its cash offer is 9.4 times its own forecast of Waddington's earnings, based on "a tax charge of only 15 per cent." This is 10 per cent above the price earnings ratio on the average packaging and paper share, says BPC.

On Wednesday Waddington forecast that pre-tax profits for the year to the end of March 1985 would "very substantially exceed" the £3.37m made last year.

BPC today also challenged Waddington's executive directors to explain a recent revision of their own employment terms.

BPC denied an earlier claim from Waddington that its debt/equity ratio would jump to 115 per cent after the acquisition. The figure will be below 50 per cent at the end of December, says BPC.

The 500p a share offer closes on December 13.

Exco enters real estate financing via £8m deal

BY JOHN MOORE

Exco International, the money broking and financial services group, is buying a 40 per cent stake in Blackman Garlock Flynn and Co., a California real estate merchant banking firm, for \$10m (£3.25m).

The U.S. company acts as an intermediary in arranging funds for property developments.

It brings together large outside investors, such as pension funds, with developers who are looking for finance. Since its formation in 1981 it has acted in over \$20m worth of deals. Its services include the underwriting and distribution of real estate debt and equity financing, real estate development, advisory, syndication and secondary marketing of mortgage finance.

Under the terms of the deal Exco is subscribing \$10m in new equity and loan capital to the

California company. The consideration will consist of \$4m in equity capital with the balance in 12 per cent subordinated loan capital notes repayable in 1990/92.

Following the subscription, which is expected to be completed next month, Exco will own a 40 per cent interest in the enlarged share capital; the remainder will continue to be held by the existing owners.

Exco said yesterday that real estate financing "is one element of financial services in which we have not been involved. We are increasingly interested in establishing investment services in California or the Pacific basin area."

"We are already strong in New York and this will fill a gap geographically between New York and Tokyo."



Sir Hugh Fraser... "I don't know who the shares went to"

Black miners go back to work at Rietspruit

THE strike that began on Tuesday has ended at the South African Rietspruit open-cast colliery in the Transvaal, jointly owned by Transvaal Consolidated Land and Exploration, part of the Barlweil Rand group, and Shell South Africa.

About a quarter of the 1,000-strong black workforce had refused to go on shift in support of a wage claim that dates back

to the annual round of negotiations in June this year. The men are all members of the Black National Union of Mineworkers which had demanded an effective 80 per cent pay increase.

They returned to work after the management said that it was not prepared to modify its earlier wage offers and threatened to withhold the miners' pay if they did not go back. The mine exports 5m tonnes of coal a year.

Strong & Fisher NZ buy

Strong and Fisher (Holdings) have acquired NZ\$400,000 (£200,000) 49 per cent of the issued share capital of Cintra Leathers which was recently formed to acquire the assets and goodwill of Bayley Tompkins and Hedges of Dunedin, New Zealand, a wholly-owned subsidiary of

Southland Frozen Meat Co. FTI specialises in the manufacture of chamois leather from prime New Zealand sheep and is the only tanner of this product in the Pacific Basin. It is proposed to expand production with the assistance of Strong and Fisher.

BPC denied an earlier claim from Waddington that its debt/equity ratio would jump to 115 per cent after the acquisition. The figure will be below 50 per cent at the end of December, says BPC.

The 500p a share offer closes on December 13.

Glynwed sells stake in South African loss-maker

BY CHARLES BATCHELOR

Glynwed International, the engineering and building products group, is selling Defy Corporation (Pty), its loss-making South African consumer durables subsidiary, in a deal which will raise £8m net.

The sale of Defy, in which Glynwed has a 74.2 per cent stake, will at the same time eliminate an overdraft of £23m, substantially reducing Glynwed's debt/equity ratio. Glynwed's shares rose 13p to 155p yesterday.

Glynwed has decided to retain the foundry and pressings division of Defy because this business is closely related to its UK foundry interests.

Glynwed has agreed to sell its Defy holding, excluding the foundry and pressings division, to Tky Corporation for £9.2m. At

the same time the remaining 25.8 per cent stake of Defy which is owned by South African General Electric Company, will also be sold to Tky.

Glynwed will retain its stake in the foundry and pressings division and also buy GEC South Africa's holding for £1.2m to obtain 100 per cent control. This division will in future be operated as Falkirk Industries (Pty).

Defy made a pre-tax profit of £2.2m—including £850,000 from foundry and pressings—on turnover of £5.3m in 1983. The depressed state of the South African economy and high interest costs mean Defy will probably move into a loss of £2m-£3m this year, including a loss of £500,000-£500,000 on its foundry and pressing business.

Potash venture aborted

THE AGREEMENT for the U.S. Amex diversified natural resource group to buy a 50 per cent stake in a Thai potash venture in Thailand appears to have been aborted at the last minute, reports Bangkok.

It was to have given a 25-year concession to a consortium of Amex (50 per cent), Siam Cement (25 per cent) and Thai Government (10 per cent).

Charcol deal to expand Abaco financial services

BY CHARLES BATCHELOR

Abaco Investments, the property and financial services group, is to take complete control of Charcol, one of the largest independent mortgage brokers, in a deal which values Charcol at £2.84m.

Abaco bought a 20 per cent stake in Charcol last April and took out an option on a further 10 per cent. It yesterday announced it has agreed to buy the remaining 70 per cent for up to £2.17m and to exercise its option for up to £225,000.

Charcol has forecast a pre-tax profit of not less than £480,000 for the year ending December 1984 compared with £150,000 last year. Abaco made a pre-tax profit of £313,000 in the year ended June 1984.

Abaco aims to achieve a 50:50 split between its property and financial activities in the longer term and is currently engaged in talks which may lead to the acquisition of a general insurance broker. It is also considering moving into life insurance and pensions consultancy work.

Abaco emerged in 1983 from Greenoak Properties which had gone four years without a dividend. Brown Goldie, a new finance and investment company, was then injected into Greenoak by Mr Peter Goldie and Mr Cameron Brown, two former executives of merchant bankers Guinness & Mahony.

Mr Peter Goldie, a director of Abaco, said Charcol, which arranged more than 3,000 mortgages worth £150m last year, would be able to refer business to Provincial Trust, formerly C. P. Choulaton, the licensed deposit taker Abaco acquired last month.

Charcol has its headquarters in Knightsbridge and was set up in 1974 by Mr John Garfield and Mr Charles Wishart. It earns its income from commissions

received in relation to insurance policies entered into when a mortgage is taken out and from fees paid by the borrower when no insurance is involved.

The company has links with a number of house builders.

Charcol recently bought two estate agencies in South London and has plans to establish more.

Charcol will pay up to £2.17m for the 70 per cent stake in Charcol comprising up to £310,000 cash and up to £1.86m by the issue of 13.2m shares priced at 14p. The precise payment will depend on Charcol's pre-tax profits in the year ending December 1984 up to a maximum of £500,000. The £225,000 payment for the 10 per cent under option will be made in cash.

Mr Garfield and Mr Wishart, joint managing directors, will continue to manage Charcol and will retain the Abaco shares for five years. Abaco shares rose 1p to 15p.

This advertisement is issued in compliance with the requirements of the Council of The Stock Exchange

**Penny & Giles International plc**  
(Incorporated in England under the Companies Act 1948 and re-registered under the Companies Act 1980) Number 689533

Placing by  
**Quilter Goodison & Co.**  
of 2,115,384 Ordinary Shares of 25p each at 130p per share

Share Capital  
Issued and to be issued fully paid  
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Penny & Giles International plc designs, manufactures and sells advanced electronic, electrical and electro-mechanical instrumentation, principally for measurement and control.

Application has been made to the Council of The Stock Exchange for the grant of permission for the whole of the issued share capital of Penny & Giles International plc to be dealt in the Unlisted Securities Market. A proportion of the shares being placed are available to the public through the market. It is emphasised that no application has been made for these securities to be admitted to official listing.

Particulars relating to the Company are available in the Extel Statistical Services and copies of the Prospectus may be obtained during normal business hours on any weekday (Saturdays excepted) up to and including 24th December 1984, from

**Quilter Goodison & Co.**  
Garrard House,  
31-45 Gresham Street,  
LONDON EC2V 7LH

AGI receives approach

AT THE same time as announcing a sharp decline in interim profits, the board of Aeronautical and General Instruments (AGI) has revealed that an approach has been received which may lead to an offer being made for the company.

AGI makes advanced telecommunications products and military and marine systems. The board is discussing the situation with its financial advisers, Brown Shipley and Company, and will make a further announcement as soon as practicable.

Pre-tax profits in the six months to end September 1984 tumbled from £345,944 to

£46,106, on little changed turnover of £5.3m against £5.2m. A. Dearlove, the chairman, says the targeted increase in turnover did not materialise.

The company has been undertaking a major programme of product development. But the need for substantially increased research and development to achieve its objectives in selected areas has led to a sharp increase in costs during the last 18 months, raised the burden of costs chargeable to profits.

In addition, there have been non-recurring start-up costs associated with AGI's European operations in which substantial benefits are expected

Riley to close loss-making offshoot

Riley Leisure, whose main businesses are making snooker tables and running snooker clubs, is closing its loss-making furniture subsidiary, C. D. Pierce and Son.

Riley, which has reported sharply reduced interim profits for the six months to the end of June down from £1.43m pre-tax to £68,000, said that Pierce had made a loss of £200,000 this year.

Sales have kept falling to a level "at which it is not viable to continue trading", says Riley.

The Pierce business is being sold to Indefurra, a privately-owned company based in Cologne, in the closure costs, including redundancy costs and the loss on the sale of the business are estimated at £200,000.

Riley closed at 37p yesterday, down 1p.

Following its increased offer, Scottish Heritable Trust now holds 29.46 per cent of the ordinary and 11.58 per cent of the preference capital of Healds & Horton, and has extended the offer to December 13.

Now that London & Midland Investments has made a rival offer, Scottish Heritable says no longer considers itself bound by its previous statement that its revised offer and cash alternative was final and would not be increased.

Booker McConnell, through Booker Agriculture International (BAI), has acquired 80 per cent of W. & F. Fish Products for around £3.1m in cash. In a separate transaction, BAI purchased Wonderfood Investments, the sole asset of which is the freehold premises occupied by W. & F. Fish. The consideration was 10.4m cash.

W. & F. Fish is a leading quality fish curer based in north London. Its principal product, accounting for 95 per cent of turnover, is smoked salmon which is sold largely in the Greater London area to hotels, restaurants, caterers, retailers and delicatessens.

BAI is a wholly owned subsidiary of Ibec of New York, the holding company for Booker McConnell's agribusiness operations. Booker McConnell owns 80 per cent of Ibec and is seeking shareholders' approval to increase its holding to around 90 per cent.

LEF Group has agreed in principle to acquire 70 per cent in Ultrabul by subscribing in cash for new shares.

Ultrabul is based in Wirral and is involved in the marketing and distribution of medical scientific equipment and related supplies.

Platon International has acquired 75.1 per cent of the capital of Security Technology, a private company specialising in the development and manufacture of electronic equipment for communications and instrumentation. It has been renamed Platon Electronic Systems.

The link with Platon enables the company to undertake larger contracts and several are currently under negotiation in the range of £100,000 to £500,000.

GEC spend £69m on share buy-back

General Electric Company yesterday gave details of the market purchases of its own shares which it conducted on Wednesday, the first buy-back of equity by a major British company.

Subscribers de Zoete and Bertrava bought 30.1m shares on its behalf at 228.5p each, representing 1.1 per cent of its equity and an outlay of £68.7m.

GEC, which had cash resources of £1.64m before the buy-back, has shareholder authority to buy up to 250m shares, just over 9 per cent of its equity, and is allowed to buy a maximum of 10 per cent in any one year, including up to 5 per cent in open market purchases.

This announcement appears as a matter of record only.

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**WEST YORKSHIRE ENTERPRISE BOARD LIMITED**  
December 1984

**F. W. THORPE**  
(Manufacturers of "Thorlux" Quality Lighting Equipment)

Continued progress through greater efficiency

The following are extracts from the circulated statement of the Chairman, Mr E. G. Thorpe:

Once again I am pleased to be able to report that we have increased our profit to a new record — profit before taxation increasing from £21,803 to £1,038,190. This has been achieved by greater efficiency rather than through an increase in sales. It is recommended that a final dividend of 2.15 pence per share be paid which with the interim makes a total of 3.45 pence, this being an increase of 15% for the year.

Our market place at home is still very competitive and we now recognise that many of our traditional industrial customers will have reduced requirements in the future. As a result we will have to broaden our range of products to ensure continuity of growth and, to this end, we have increased our design and technical staff.

Overseas our sales have been maintained and at the same time we have established the basis for further growth by seeking and appointing reputable agents in new areas.

Thorlux lighting is now well known in many countries and we are confident that as world trade improves and given stability at home, we will be rewarded by the foundations we have so arduously laid.

Our present order book both home and overseas is satisfactory and the indications are that our steady upward progress will be maintained.

**BANK RETURN**

	Wednesday December 6 1984	Increase (+) or Decrease (-) for week
<b>BANKING DEPARTMENT</b>		
Liabilities	£	£
Capital	14,062,000	+ 3,070,583
Public Deposits	26,436,707	+ 287,000
Bankers Deposits	6,784,825	+ 116,908,437
Reserve and other Accounts	1,688,401,725	
	2,673,516,932	- 164,503,583
Assets	£	£
Government Securities	393,881,951	+ 20,890,000
Advances & other Accounts	884,139,353	+ 171,412,815
Premises Equipment & other Sec.	1,381,614,452	+ 11,660,550
Notes	11,550,575	- 1,480,580
Gain	123,770	- 84,878
	2,673,516,932	- 164,503,583
<b>ISSUE DEPARTMENT</b>		
Liabilities	£	£
Notes issued	18,400,000	+ 220,000,000
Notes in circulation	12,392,509,489	+ 22,468,350
In Banking Department	11,080,572	- 1,468,380
Assets	£	£
Government Dept	11,015,120	
Other Government Securities	1,361,614,452	+ 390,770,804
Other Securities	10,507,969,457	+ 610,770,804
	18,400,000,000	+ 220,000,000



# FINANCIAL TIMES SURVEY

## Bulgaria TRADE AND INDUSTRY

Moscow's closest ally benefits from political stability and strong economic progress which are enabling it to withstand the cold winds of world recession without a fall in its living standards

### Solid record of economic progress

By David Buchan

East Europe Correspondent

THE LOT of Bulgarians today seems contented. It is not just that they have a beneficial climate and country side to compensate for relative lack of raw material endowment. It is rather that they combine a sense of secure identity, political stability, and economic progress in a way that no other East European country does.

Unlike other East Europeans, Bulgarians generally have no hang-ups about their alliance with the Soviet Union. Well before Lenin's revolution, they looked to Mother Russia for liberation from the Turk. They won it in the 1870s, and there still stands in Sofia a statue of thanks to the "Tsar-Liberator" (Alexander II), perhaps the last remaining monument to a Romanov.

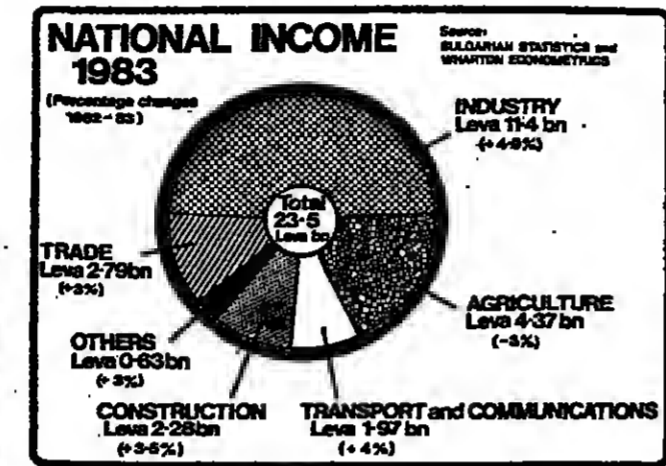
Bulgarians share cultural roots with Russians. Indeed, they are the Russian cultural root, in the sense that St Cyril was a Bulgarian and bequeathed to the Russians his alphabet. But this engenders no real sentiment of superiority—only the occasional "oneupmanship" that Bulgaria is Athens to the Soviet Rome, which is quickly tempered by ready acknow-

ledgement of the very considerable material benefits derived from the Soviet Union.

That Bulgaria should be Moscow's closest ally seems natural to most Bulgarians. Recent events have reinforced this identification: Bulgaria was the first to join Moscow's boycott of the Olympic Games in the U.S. That decision was made all the easier by the fact that, to its citizens' chagrin, Bulgaria has recently become better known in the West through allegations about involvement in plots against the Pope than through Black Sea holidays, wine and folk lift truck exports. So Bulgaria has come to share with the Soviet a perception of being treated as a pariah by many in the West.

#### Stability

The sense of political stability stems simply from the fact that Bulgaria has been led by one man, President Todor Zhivkov, for the past 30 years—the longest rule in Europe, excepting that of Enver Hoxha in Albania. Mr Zhivkov's hold on power, consolidated through permeation of the security apparatus as long ago as the mid-1960s, remains unquestioned. Speculation about potential crown prince rises and falls, and is quiescent for the moment, with the dismissal last autumn of Mr Alexander



Lilov, who had been the politburo's chief ideologue.

At the same, ossification has not been allowed to set in in the hierarchy below the 73-year-old Mr Zhivkov. Perhaps partly because he wants no rivals, the President has regularly infused party and government with new blood. The average age of the politburo is below 60. A new member this year is Mr Chudomir Alexandrov, who doubles up in the government as first deputy to Prime Minister Grisha Filipov.

Only in his late 40s, Mr Alexandrov is typical of the younger breed of party technocrats—other examples are Mr Andrei Lukanov, the Moscow-born deputy premier and Mr Georgi Pirinski, the Brooklyn-born deputy trade minister—who seem intent on pursuing greater efficiency at home and opening the economy up to more trade. One does not think of detente particularly touching or changing Bulgaria, but it was the international relaxation of

the 1970s that helped to bring these men to the fore.

In the economic field, Bulgarians may produce fewer industrial goods per head than East Germans and Czechs, and have less consumer choice than Hungarians, but they have a solid record of progress. Mr Lukanov can rightly claim that of all Comecon countries, Bulgaria has made the greatest strides given its point of departure. In 1944 a Newsweek correspondent noted on a visit that the country had only 10 miles of paved road and barely enough electricity to light Times Square.

Since then—and Bulgaria is celebrating its 40th anniversary of communist rule this month—it has multiplied its gross national product by a factor of 14, industrial production by 84 and agricultural output by 3. Farming is still the economy's mainstay, employing 20 per cent of the workforce but producing 25 per cent of national income and exports. The



President Todor Zhivkov has been ruler of Bulgaria for 30 years and his hold on power is unquestioned

capital-intensive "agro-industrial complex," of which there are some 300 each cultivating an average 1,300 hectares, mesh in with the labour-intensive household plots, of half a hectare per family, to make Bulgarians well fed at home and the biggest food exporters inside Comecon.

#### New jobs

Yet large numbers of people have left the land, which as recently as 1970 represented the livelihood of more than a third of the population. Most of their new jobs have come in industry, now employing 36 per cent of the workforce, with particular expansion in machine building, petrochemicals and—far cry from foreign images of Balkan hewers of wood and drawers of water—electronics and robotics.

A further shift — into the service sector — is beginning to accelerate, as the retail network expands and tourism grows. Bulgaria is hoping to

offset the recent decline in Western custom for its Black Sea summer resorts, catering for the recession-hit lower end of the holiday market, by developing winter sports facilities. It has bid to host the 1992 Winter Olympics.

Unlike the rest of Eastern Europe, Bulgaria has been able, too, to weather the early 1980s without a drop in its standard of living. Indeed, for the first three years of this decade it recorded an average annual rise of 4.8 per cent in national income, 5 per cent in industrial output and 3.5 per cent in farm production. Last year, drought cut agricultural output and depressed overall growth figures, but trade and industrial output have been buoyant in the first six months of this year, showing increases respectively of 8.4 per cent and 3.7 per cent over the first half of 1983.

Equally, Bulgaria has no debt crisis because it has so

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little debt. According to Wharton Econometrics, the country's net hard currency debt stood at \$1.2-\$1.3bn by the end 1983, by far the lowest in the Soviet bloc. (Bulgarian officials give no hard currency reserve, debt or trade figures, declaring them "State secrets"; but they indicate these Western estimates are not far wrong).

In fact, Bulgaria has been steadily paying off its Western debt, which peaked at nearly \$4bn in 1979, with the proceeds of its hard currency trade surplus. This surplus ran at around \$600m a year in 1981-1982, but dipped last year to \$460m, according to Wharton, chiefly because of payment problems in Iran, Iraq and Libya, caused by war and oil slump. These three Middle East countries account for over 60 per cent of Bulgaria's total exports to the Third World.

Bulgaria's finances are still comfortably padded and it has not had to borrow on the Euro-markets since December 1979. But it could resume borrowing in the next few years, if its hitherto strong trade surplus with the Middle East were to shrink and if Soviet oil shipments were to be cut further. The Soviet Union is the natural energy supplier of Bulgaria, which has smaller fossil fuel resources than any of Moscow's other allies. In recent years the Soviet Union has favoured Bulgaria with more relatively cheap crude than it has needed domestically. The crude has thereafter been refined or processed chemically, netting Bulgaria a windfall gain of \$2.2bn over the past three years, according to Wharton.

This era of Soviet energy munificence is coming to an end, even for ultra-loyal Bulgaria, as Soviet leaders made clear at the recent Comecon summit in Moscow. But officials in Sofia

#### BASIC STATISTICS

Population	9.1m (mid-1982)
Area	110,913 sq km
Net Material Product	23.5bn Leva in 1983
NMP growth	+4.3 per cent in 1982 +2.9 per cent in 1983
Estimated Gross National Product (including services)	\$26-35bn
Exchange rate (August 1983)	\$1=Leva 1.35

seem confident that their rapidly developing nuclear power programme, which already generates a quarter of Bulgarian electricity, will soften the impact of change.

Yet, if there is a hint of acknowledgement of Soviet favouritism over oil, Bulgarian officials put their country's undoubted success in intra-Comecon industrial specialisation down to their own foresight, and to hard work.

By luck or design, Bulgaria has carved out for itself sizeable niches in the Comecon market in such growth sectors as electronics, robotics, and electrical machinery. The way in which this specialisation can be used as a springboard on to the world market is impressively illustrated by Balkancar, the Bulgarian maker of fork-lift trucks and the world's largest.

Balkancar has consolidated its virtual monopoly hold on Comecon. It has persuaded the Soviets to forgo Hit truck production of their own. On top of the 50,000 Bulgarian trucks they already buy each year the Soviets have agreed to a steady increase in purchases until the end of the decade.

CONTINUED ON NEXT PAGE

## MEDLINK

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● Bourgas-Marseilles-Livorno-Volos-Bourgas

● Weekly connection between Marseilles and Greece (Piraeus and Volos)

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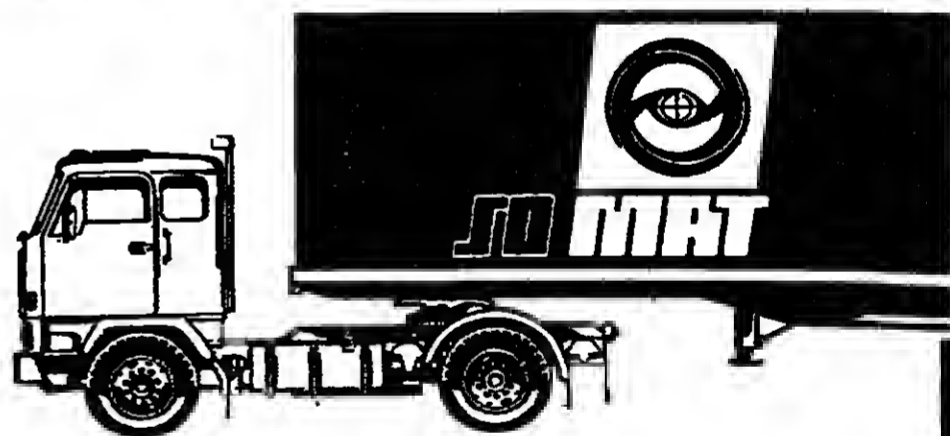
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BULGARIA 2

# A shift from the centre

**Economy**  
DAVID BUCHAN

GENERALLY SPEAKING, Soviet bloc countries dislike having their economic management changes described as reforms—because this might imply error in the past or, worse, because this may show they are politically out of step with each other.

Bulgarian officials often exhibit these attitudes. They still formally call their reforms, with devious blandness, "the economic approach and its mechanisms," and are usually unhappy when outside observers try to situate their reforms in the spectrum between market-oriented Hungary and the still-orthodox Soviet Union. But perhaps they ought to relax more, because, as they explain it, there is a natural and national evolution between market-oriented Hungary and the still-orthodox Soviet Union. But perhaps they ought to relax more, because, as they explain it, there is a natural and national evolution between market-oriented Hungary and the still-orthodox Soviet Union. But perhaps they ought to relax more, because, as they explain it, there is a natural and national evolution between market-oriented Hungary and the still-orthodox Soviet Union.

The reforms reflect the fact that Bulgaria has reached what President Zhivkov calls "mature socialism." Or, as one of his deputy premiers, Mr Andrei Lukanov, explains, that while a high degree of centralism may be good in the early stages of industrial development, it can be downright bad in later stages.

Bulgaria is becoming a more complex economy and therefore intrinsically harder to plan from the centre, with a shift of the workforce from agriculture to industry and services. However, Bulgarian leaders have no intention of abandoning central planning. President Zhivkov said in 1981 that the new economic reforms were "to have nothing in common with the conceptions for the spontaneously functioning market mechanism."

This has proved an overstatement, made to some extent to ease the minds of conservatives inside and outside Bulgaria, and has since been somewhat overtaken by events. But there is also no compelling logic for Bulgaria to move as far as Hungary. Far more (78 per cent) of its trade is conducted inside Comecon than any other Comecon country.

**Flexibility**

The essence of the Bulgarian reforms has been to increase the decision-making powers of enterprises and to some extent workers to retain without much diminution the strategic control of central planners, but at the same time to introduce some flexibility on wages and prices and inject a moderate element of competition into the economy. In more detail, the reforms include the following:

- Planning. Central planners have reduced the number of targets they set for individual enterprises to five—physical output, current balances, investment allocation, technical

innovation, material input and profit. If this still seems constraining, it is at least less so than in the past. Enterprises also have more say in setting targets through the "counter-plans" they send back to ministries.

A further decentralising move has been increased emphasis on the old Communist unit of the work "brigade" of which there are about 16 in the average Bulgarian industrial enterprise. The brigades, like the enterprise, also prepare their own "counter-plans."

But at the same time, the central ministries still keep a monthly check of enterprise's plan fulfilment and reserve the right to take away resources or switch them to another factory, if an enterprise's expenditure appears to the Sofia bureaucrats to be ill-advised. This prompts the comment from one Western expert on the Bulgarian economy, Dr Martin Jackson, that the central authorities still "seem to tolerate initiative at lower levels only if it results in what they would have done anyway."

Wages. Rules on pay are intimately bound up with measures to make enterprises self-financing. The discipline on a company to stop making losses and the incentive for it to start making profits is that wages are now "casualty" paid only after an enterprise has met all tax, depreciation, investment, debt charges.

**New system**

As a result, there is no longer a solid floor under no longer workers' wages, while there are some new ceilings on the rate of growth in wages. In 1982 for instance, the wage fund could not be increased by more than 0.5 per cent for each enterprise's point growth in an enterprise's total income, though there are extra bonuses rewarding productivity increases.

In practice, workers have had guaranteed an average 70 per cent of their total take-home pay not be increased by more than 3.5 per cent a year since 1961. Thus, the new system of semi-flexible wages has not yet been tested by bad economic times, because the Bulgarian economy has stayed fairly buoyant throughout the first half of the 1980s. In addition, despite all the talk of financial self-sufficiency, enterprises making goods for export and basic consumer needs still seem to be drawing hefty subsidies from the central state budget.

Prices. The reason why state prices are still maintained is that the prices of basic foods and consumer goods, energy, raw materials, and transport are still tightly controlled by central planners. But the prices of an increased number of other less essential goods and services are now determined by "free negotiation" between wholesaler and retailer, or producer and marketer. Bulgarian officials do not admit they have inflation as such, but price adjustments are now part of the regular annual planning cycle, with planners keeping an eye also on international trends. If domestic prices of internationally tradable items diverge by more than 8 per cent from world prices, then adjustment is supposed to take place. The means of the ways in which Bulgarian producers are to be brought into closer touch with the international market.

However, pricing policy re-

mains complex, with seven categories of goods all treated separately. Mr Chudomir Alexandrov, the first deputy prime minister, says no "free play of prices" will be allowed, partly for fear of political and social repercussions. Thus so far pricing remains one of the weaker aspects of the reforms.

Investment. Enterprises, under the reforms, are now free to choose their own investments into which to sink their own money, but more than half of all investments, 50-60 per cent, is still financed either direct out of the central state budget or by credit from the National Bank and Foreign Trade Bank. Interest rates, currently ranging from 15 to 18 per cent, are playing a somewhat higher role in allocation of credit. But they are not a neutral mechanism. Mr Vesselin Rankov, first deputy president of the Foreign Trade Bank, says that higher rate rebates are given to those enterprises which overfulfil their export targets, a 3 per cent rebate for companies producing extra goods for the Comecon market and a 15 per cent rebate for those selling additional goods for hard currency outside Comecon.

Where there used to be a uniform interest rate for Bulgarian enterprises, now the more successful companies pay less interest and the weaker enterprises more. Thus to some extent, the bankers are taking over from the planners the job of supervising Bulgarian industry and setting rewards and penalties.

Competition. This is not a dirty word in Bulgaria. Foreign firms see the advantage of some limited competition, both to increase the variety and quality of consumer goods, particularly and, more generally, to prevent some enterprises earning the monopoly profits about which Mr Grisha Filipov, the prime minister, has complained.

The old barrier between the producer and the market is being chipped away at. Manufacturing enterprises and agricultural complexes may now open their own retail outlets, and more generally, to prevent some enterprises earning the monopoly profits about which Mr Grisha Filipov, the prime minister, has complained.

**Under pressure**

In the international arena, the old-established foreign trading organisations (FTOs) have come under some competitive pressure. More manufacturing enterprises are being allowed to start up their own trading organisations, joining the few really big manufacturers such as Balkancar which have long had this right. Another trend is group ownership by producing companies of FTOs.

Limited though the Bulgarian reforms may be, they have naturally provoked some resistance. Ministers have complained about some bureaucrats preferring the old-style "administrative" approach to the new "economic" one, and riding roughshod over the new rights of enterprises and workers. Nor are the reforms probably responsible for any measurable macroeconomic increase in output or exports. But original reforms can only produce gradual results.

TRADE AND CURRENT ACCOUNT BALANCES				
	(\$m)	1980	1981	1982
Trade balance .....		+988	+651	+645
Current account balance .....		+887	+183	+399

Source: Wharton Econometrics.

## Solid progress

CONTINUED FROM PREVIOUS PAGE

At the same time, Balkancar wants to buy into existing West European manufacturers to expand its market there. Its bid to buy control of a leading French firm was rebuffed last year—for essentially political reasons, Balkancar believes; but the Bulgarian company is convinced that it is now too powerful a force to be long ignored.

Bulgaria is also seeking inward investment to expand trade with the West. But so far only a handful of foreign companies have taken advantage of its 1981 law allowing the creation of joint ventures (with possible majority foreign ownership, but under a Bulgarian-controlled board). Most of the arrivals have been from Japan, which happens to have closer trade ties with Bulgaria than with any other country in the region.

Generally, Western companies do not see Bulgaria's Comecon penetration as significantly helping to expand the small Bulgarian market of 9m people. Another undoubted factor is the political climate. The first significant impact of

the West's new tighter strategic trade controls has been to quash Bulgaria's attempt to buy a new Western-made telecommunications system.

Yet, ironically, Bulgaria's current economic reforms should make it easier for Western companies to do business with it. The main aim of these changes (see separate article) is to devolve more decision-making responsibility on enterprise managers and their workforces (with central planners still retaining overall control), and to link the Bulgarian producers more directly with his home and foreign markets.

This will not turn Bulgaria into another Hungary, for the Zhivkov government sees no role for private enterprise ownership or finance, and only a limited function, as yet, for the price mechanism as an allocator of resources. But it may have the broader effect, as some ministers in Sofia believe, and even hope, of encouraging some decentralisation of political power.



Mr Andrei Lukanov, a deputy prime minister since 1976. Above (right) Mr Chudomir Alexandrov, promoted in the January 1984 reshuffle to be first deputy to Prime Minister Grisha Filipov



PROFILE: CHUDOMIR ALEXANDROV

## Managerially-minded politician

WHEN Mr Chudomir Alexandrov was promoted, in the January 1984 reshuffle, to be first deputy to Prime Minister Grisha Filipov, there was an accompanying development, less noticed at the time, but a significant indication of the changing role of central government in the Bulgarian economy.

Several ministries were merged into two new ones with broader responsibilities: the ministries of energy and natural resources, and of production and trade of consumer goods.

The move reflects the fact, Mr Alexandrov says, that ministries are now giving enterprises more freedom in day-to-day planning and management, retaining only an overall supervisory function. Less detailed supervision requires fewer bureaucrats and fewer ministers. The first deputy prime minister admits that the logic of this change will bring Bulgaria nearer to Hungary (which has only one industrial ministry) than to the Soviet Union (which still has dozens).

This reduced role for central government might seem a disappointment to a man in his late 40s just promoted high in a man who started out as a mining engineer but has built his career as a communist

party administrator, both in the central committee and heading regional organisations in central Sofia Zagona and, most recently, in the capital, Sofia.

But Mr Alexandrov sees the change as an essential part of the economic reforms. "The means of production of this country belong to the people, as represented by the state. Local enterprises and collectives do the managing, while the state's role as owner is to set certain conditions." Chief among these conditions is to ensure that enterprises stand more on their own financial feet, and that wages and prices reflect efficiency and quality.

Essential part

Mr Alexandrov, who is perhaps the most prominent managerially-minded politician because he is also a full member of the politburo, stresses the need for greater competition in the economy "within certain limits." Competition is useful, he believes, in light industry and consumer goods production to achieve larger variety and better quality, but less so in heavy industry where a country like Bulgaria does not have the resources to duplicate big capital investments.

Equally, he injects a note of caution about pricing policy. Bulgarian prices need to take international price trends into account, since so much of national income (80 per cent, he says) derives from trade. But most of this trade is done with Comecon where prices are negotiated government-to-government.

"Free play of prices should not be permitted, because it can lead to political and social pressures," says Mr Alexandrov, evidently mindful of his broader responsibility in his new job. He notes that in 1979 prices were raised considerably, but so were wages.

Indeed some of the ambiguity in Bulgaria's economic reforms is clear from Mr Alexandrov's remarks on income policy. On the one hand, he says, "we suffer at present from a certain equalisation in wages, and we welcome larger differentials where justified. If skilled workers get more than 3-4 managers, good luck to them." On the other hand, "we are trying to increase the pay of the lower paid," Mr Alexandrov says, with for instance, increases in pay for teachers and in allowances for parents starting on September 1.

David Buchan

PROFILE: ANDREI LUKANOV

## Youthful zest for trade

RELATIVELY young men find it easier to rise to the top in Bulgaria than in any other Soviet bloc country, and one of the clearest illustrations of this is the career of Mr Andrei Lukanov, still only 46 but a deputy prime minister since 1976, and a candidate politburo member with special responsibilities for foreign economic relations.

Perhaps youthfulness, too, plays a part in the buoyant outlook that Mr Lukanov takes towards trade inside and outside the Soviet bloc. Born in Moscow (where his father was an ambassador) and partly educated there, he has been Bulgaria's permanent representative to Comecon, and is in no doubt about the benefits from Moscow. Bulgaria is, he says, the least developed Comecon member—a classic developing country—and its progress has been the most striking, given its point of departure, he says.

He is bullish that the recent Comecon summit will help Bulgaria further, not only by greater general co-operation on energy (nuclear reactor construction, uranium exploration, oil and gas exploitation and transport), but also by allowing Bulgaria to specialise further in telecommunications, electronics and some areas of machine building.

At the same time, however, Mr Lukanov who gained wider trading experience during his mid-1970s stint as deputy foreign trade minister and speaks excellent English, says he would like to raise the share (currently 20 per cent of trade) that Bulgaria does outside Comecon. He points out that some smaller EEC members do even more intra-EEC trade than Bulgaria does with Comecon.

Buying companies

Bulgaria is flexible on inward and outward investment in order to enhance trade. Alone among Comecon countries, it has shown an active interest in buying Western manufacturing companies: two years ago it bought a West German engineering firm, while last year it tried but failed to get control of a French forklift truck business.

"We will still examine other cases on their merits," Mr Lukanov says. Like some other Comecon countries, Bulgaria permits joint ventures, though relatively few Western

firms have yet made any direct investments. Mr Lukanov does not in fact see these sort of direct investments, in either direction, as the main means by which Bulgaria can increase trade with the West.

The prospect of increased Bulgarian-Western trade will be influenced by broader considerations. But new and stricter technology export controls by the West "reduce significantly the possibility of economic co-operation and persons of the political atmosphere," Mr Lukanov says. "But the Western policy will not succeed, because scientific achievement cannot be locked away in a cell," he adds. "It is also short-sighted because this sort of policy accelerates development inside Comecon."

The deputy prime minister

is also enthusiastic about Bulgaria's economic management reforms because "they create more democracy in the economy, and through that, more democracy in political affairs." When smaller enterprises or workers brigades get more decision-making autonomy, "they not only take more interest in the fruits of their labour but are also expressing their basic civil and human rights in the most important sphere."

The party and central government are, Mr Lukanov says, trying to "promote more political democracy by using parliament more and transferring more decisions to local government and to officials elected rather than appointed."

D. B.

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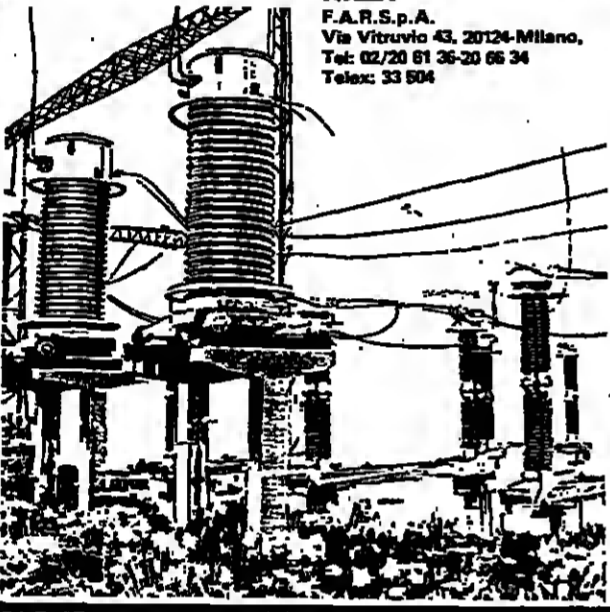
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BULGARIA 3

Technology and rockets boost the harvest

Agriculture LESLE COLIIT

"THERE IS no poorer country than one which does not have a developed agriculture," according to Mr Javcho Rusev, deputy president of the National Agro-Industrial Union. In Bulgaria, with its strong farming traditions, agriculture remains the basis of the economy and this lesson has been firmly observed. Though in the post-war period the country went through forced industrialisation it did not neglect agriculture.

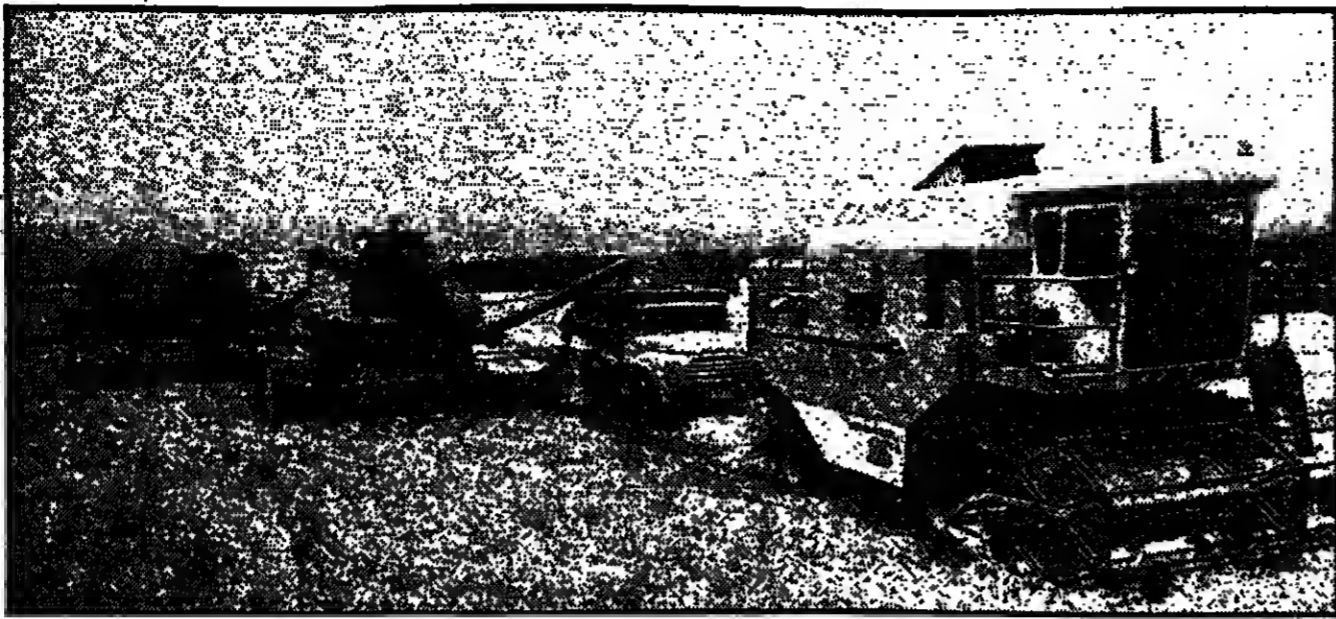
As a result, Mr Rusev argues, Bulgarian farming is "relatively advanced," compared with its neighbours—Romania, Yugoslavia, Greece, and Turkey, and even the Soviet Union which lies just across the Black Sea. In 1980 wheat yields in most Balkan countries were similar, but now, Bulgaria claims to be able to produce 100 kilograms more wheat from 10 hectares of land than the others. The same is true of tomatoes and grapes.

The Georgi Dimitrov farm outside Plovdiv is so big that it needs a computing centre to keep track of crops on its 31,000 hectares, as well as of the earnings of its 12,000 farmers. It launches rockets to break up clouds which threaten to unleash hailstorms that used to cause millions of dollars in damage to crops.

Computer centres

The farm is actually an agro-industrial complex (AIC) formed in 1978 by amalgamating several co-operative farms and vertically merging them, with food processing plants and farm machinery stations. AICs, which were begun in the early 1970s, now account for well over 75 per cent of Bulgarian farmland. Even the Ministry of Agriculture has been renamed the National Agro-Industrial Union.

The Georgi Dimitrov AIC, named after the ill-fated late Bulgarian Communist leader, is one of the largest in the country, while the average AIC has decreased in size from 21,000 to 13,000 hectares.



Klas Dominator and Kolos combines harvesting barley in the V. Levski agro-industrial complex near Hissar

In addition to farmers, it employs 8,000 canning workers and 8,000 people in equipment maintenance, transport and construction.

Fruits and vegetables are mainly grown. Rainfall this summer has been adequate and a good crop of golden and red apples is expected. The farm is 85 per cent irrigated, compared with a much smaller percentage on other Bulgarian farms.

Last year, Bulgarian agriculture was badly hit by the drought in the Balkans, which led to an undisclosed drop in farm output below the 1982 level. An official report said less wheat, sunflower seeds, sugarbeets, tomatoes and grapes were produced than in 1982, while there was an increase in fruit, early vegetables, and some fodder crops. Meat production was 3 per cent higher than in 1982.

Because of the drought, Bulgaria was able to export only 100,000 tonnes of wheat last year, whereas normally it sells between 400,000 tonnes and 500,000 tonnes of wheat abroad to international grain companies on three months' delivery terms.

Bulgaria's exports to Comecon markets—mainly the Soviet Union, East Germany and Czechoslovakia—consist of meat and meat products, fresh and canned fruit and vegetables, cigarettes and dairy products. They are used to obtain in return energy and raw materials from the Soviet Union.

As energy prices rise, agricultural prices are also expected to go up, because energy makes up 40 per cent of costs in some agricultural areas.

Agreement in principle with the other Comecon countries was reached at the June Moscow summit conference in Moscow, according to Mr Rusev, on future joint investments in agriculture. These could take the form of investments in modern irrigation systems for Bulgaria, which would allow it to produce two crops in a growing season.

East Germany, for example, would be able to get more fruit and vegetables this way. Bulgaria is also interested in exploiting the skills of its experienced personnel on joint projects such as the growing of citrus fruits, tea and coffee in Cuba. It is also possible that

several Comecon countries could link to build freezing plants for fruits, vegetables and meat.

Food exports are Bulgaria's second most important source of hard currency, earning the country some 22 per cent of its convertible currency earnings. Sales in the European Community have fallen because of its quotas, but new markets have been opened for Bulgarian frozen and canned fruits and vegetables in North Africa, the Middle East and Japan.

Negotiated prices

Prices offered by buyers in Western Europe are seen as too low, and exports have thus been concentrated on the "stable" socialist market, where prices are negotiated years in advance.

Private plots of up to half an hectare exist for the use of Bulgarian farm families and are estimated to produce up to a quarter of farm output. While their contribution to food supply is acknowledged, Government policy is that the "personal sector" must remain an appendage of the socialist economy, under close state control.

The family plots concentrate on growing labour-intensive crops, such as strawberries, cherries, and other berries. The first tomatoes of the season and early lettuce are normally come from private plots, which produce milk and meat in addition and largely for their own use. One-fifth of Bulgaria's meat output also stems from the same source.

Mainly retired people and students worked on the private plot at the Georgi Dimitrov farm according to its director of economic planning Mr Georgi Nenkov. The farm has contracts with the private producers under which they obtain lower priced seed and fodder and then sell the output to the farm.

The private plot producers can also sell their produce at private markets in the towns, but Mr Nenkov said they earned "double" by selling to the co-operative. Selling the output themselves, he explained, meant transporting their produce to the private markets, paying for the rental of a stall, and assuming the risk of not being able to sell everything.

Eighty per cent of the output of the private plots on his farm are sold to the AIC. Factories and other institutions, including the armed forces, have been

encouraged to grow much of their own food on auxiliary plots of land and are apparently doing so with some success. The gardener lies fairly close below the surface in most Bulgarians.

At the Georgi Dimitrov farm's air-conditioned computer centre, information on daily work performances and the state of crops flows in from regional bureaus, which process information from some 36 branches. Part of the information is fed back to the regional centres for accounting purposes, using East German Robotron computers and the Bulgarian Uzoms. During the winter unused data processing capacity is leased to outside companies, which provide one-quarter of the operating costs.

According to Mr Nenkov farm employees can earn as much as 50 per cent more than their colleagues, if they exceed the plan target by a certain amount. If they drop below the target, 10 per cent is deducted from pay. The average annual wage is only 2,400 leva (the same amount in dollars at the official exchange rate) but employees receive double that amount in benefits, such as free produce, free medical treatment, and 30-days paid holiday. They can also qualify for a home building loan of 12,000 leva at 2 per cent interest with 25 years to pay.

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Celebrating the commissioning of the fourth coke furnace battery at the Leonid Brezhnev iron and steelworks near Sofia. Soviet specialists took part in the construction of the new plant which will provide 650,000 tons of blast furnace coke a year

Hardly a stampede

Joint ventures DAVID SUCHMAN

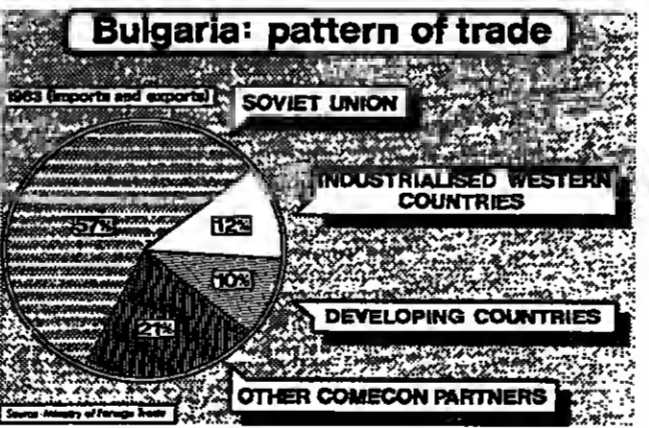
BULGARIA WOULD LIKE to have more Western investment in the form of joint ventures. But officials in Sofia recognise that the response to their 1980 decree permitting joint ventures has been lukewarm, partly due to objections to some aspects of the Bulgarian law, and partly due to general political and economic factors.

Thus, industrial co-operation agreements, rather than joint investment, are seen as the main vehicle for closer business ties between Bulgaria and capitalist countries.

So far only four joint ventures have been set up: with Fane of Japan for development, manufacture and sale of industrial robots; with Hitachi and Marubishi Soli of Japan for production and sale of consumer goods; with Tugra of Switzerland for making pens; and with Dew Chemical of the U.S. for chemical manufacture.

This is hardly a stampede, though other possible ventures are under discussion. The Bulgarian law, or Decree 535 as it is better known, does not exclude any sectors (except defence) from foreign investment. But it expressly mentions production, scientific-technical (research), engineering, development, marketing and other kinds of activity in the area of industry, agriculture, construction, commerce, transport, services and tourism.

The main points about Decree 535 that potential investors in Bulgaria might bear in mind are: Equity. Foreign equity may be in cash or in kind, such as plant or machinery, materials, know-how, and is not limited to 49 per cent of a joint



ventures capital, as in most other East European countries which allow foreign investment. The general Bulgarian feeling, however, is that contributions from the two sides should be roughly equal and commensurate with the joint company's scale of operations. Management. The overall running of a joint venture is the responsibility of a management board, whose chairman must be a Bulgarian and whose decisions must be unanimous. This considerably dilutes any management advantage which a Western company might hope to get from taking a majority stake. The chief executive director must also be a Bulgarian, though in both cases their deputies would be expected to be nominated by the foreign partner. Tax. The foreign partner's share of the profits is taxed at 20 per cent if it stays in Bulgaria, and at 30 per cent if it is transferred abroad. Joint venture companies can also import most capital goods and materials without customs duties. Foreigners working for a joint venture in Bulgaria are subject to income tax of 14 per cent, if they have no children, to the so-called "tax

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# Low-cost Soviet oil aids trade balance

**Energy**  
PATRICK BLUM

IN CONTRAST with its neighbours, Bulgaria has never had great difficulties getting relatively cheap energy from the Soviet Union. It provides the Soviet Union with a wide range of industrial and petrochemical products, and in return depends on Russia for 75 per cent of its oil imports and all its gas.

Bulgaria's imports easily cover domestic needs and, since it also imports oil from the Middle East — albeit at higher prices — it is able to chalk up welcome hard currency revenues through the sale of petrochemical and downstream products to the West.

The Comecon last June cemented this close energy relationship, and for the duration of the next five-year plan (1986-1990), imports from the Soviet Union will remain pretty much at current levels.

Bulgarian officials say that prices for imported energy, especially oil, will continue to be calculated on the basis of an adjusted average of world prices during the previous five years. Some flexibility is kept for possible adjustments but any significant upward changes would require also making changes in other intra-Comecon trade prices, and this would require lengthy negotiations.

Bulgarian officials admit that Soviet oil comes cheaper than buying on the open market in the West but they reject the idea that this amounts to a subsidy. Cheaper oil is paid for with cheaper exports to the Soviets they say.

Mr Krassin Ganchev, managing director of Chimimport, the state oil, gas and petrochemicals monopoly, explains: "The price system within Comecon countries applies to all goods and trade between us. The price of other products are also lower so there is no financial advantage. The theory that we are being financed through low priced Soviet oil is not only wrong but demonstrates a poor knowledge of our price system," he says.

Bulgaria imports 10-12 million tonnes of oil from the Soviet Union and another 3-5 million tonnes from Libya, Iran, Iraq and Algeria, with slight variations from year to year. It also imports some 50m cubic metres of natural gas a year from the Soviets.

Oil imports from the Middle East and North Africa are mostly paid for by the sale of industrial products or in return for engineering works and other services. Imports from non-communist countries are expected to grow although not at the expense of the Soviet supplies.

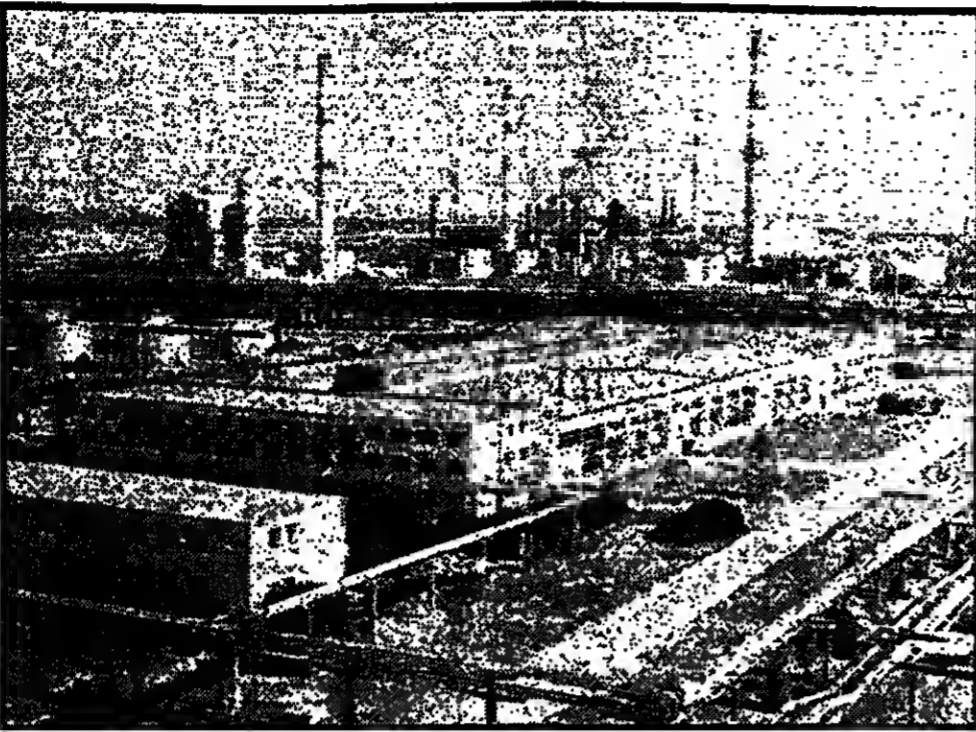
### Currency surplus

Almost all non-Soviet energy imports are processed in Bulgaria and sold as petrochemicals and semi-finished products to the West. This has greatly helped Bulgaria build up a hard currency trade surplus and contributed to reducing its western debt to the lowest level in the Comecon.

Bulgarians are secretive about their energy trade and Mr Ganchev plays down the benefits to Bulgaria. The profits from this trade are not that high because the price of crude oil (bought outside the Soviet Union) is high to start with, he says. Nevertheless, Chimimport sales of chemicals, petrochemicals and other downstream products in 1983 were worth U.S.\$1,250m of which U.S.\$900m were to non-Communist countries.

The Bulgarian chemical industry — which includes petrochemicals, chemicals, rubber and plastic as well as pharmaceuticals and cosmetics — is the second most important branch in the economy after machine building and electronics.

Mr Ignat Iosifov Frantsov, deputy minister for the chemical industry, says the industry currently employs about three per cent of the total workforce.



The petrochemical works near Burgas on the Black Sea (above). Four other large plants produce chemicals and fertilisers, four plants provide fibres and several smaller plants make tyres and plastics. Bulgaria's own plants now produce between 85 and 90 per cent of its domestic needs

accounts for over nine per cent of industrial assets and for about 17 per cent of industrial production.

Until 1980 it was growing at an annual average rate of 12-23 per cent. The pace of development has slowed somewhat since then although this year it is still expected to show a healthy growth rate of over six per cent compared with overall growth of 4.5 per cent for the whole industry.

### Fertiliser plant

Bulgaria now boasts a vast petrochemical complex at Burgas on the Black Sea, four other large plants producing chemicals and fertilisers, as well as four plants for fibres and several smaller plants producing tyres and plastics. Between 85 and 90 per cent of our domestic needs are now satisfied by our own industry," Mr Frantsov says.

The current growth rate for the industry will be maintained during the next plan but with greater emphasis on the production of specialty chemicals, pharmaceuticals and micro-biological products. The production of tyres will also be considerably expanded to meet higher demand for fork lift trucks in which Bulgaria has a near monopoly within the Comecon.

Investments will remain at about 500m a year until 1990 although more will be spent on modernising, rebuilding and expanding existing plants than on building new ones.

Because domestic resources are scarce and local raw materials are of low quality Bulgaria has to rely on imports. Mr Frantsov says, first deputy minister for energy and material resources says that more imports will be necessary but less oil.

Bulgaria, he says, consumes relatively little oil for energy. "Power generation is mainly based on thermal heating coal plants, on hydro-electric plants and on nuclear plants. Oil is mostly used to assist in the utilisation of low grade coal. We want to increase oil consumption at roughly the same level as now. For new industrial capacities we will substitute coal for oil and reat (existing) plants so they can use coal."

About 30 per cent of Bulgaria's electricity is produced from domestic low calorific lignite, 28-30 per cent from nuclear energy, 8 per cent from hydro-electric power, four per cent from gas and three per cent from oil. The remainder is from imported sources, mainly coal.

To meet expected higher demand several projects are already under way. The coal fired Maritsa-East plant near Plovdiv

which generates over one fifth of Bulgaria's electricity is currently being expanded and will provide an extra 15 per cent capacity by the end of this year.

By 1990 Maritsa-East's total generating capacity should reach 3,360 MW.

A new hydro-electric plant is under construction at Chaita to provide 600 Mw from 1986. But the most dramatic expansion is envisaged for nuclear power which will provide about 60 per cent of all electricity produced by the end of the decade.

According to estimates the International Atomic Energy Agency Bulgaria already ranks sixth among industrialised nations for generating electricity from nuclear power. The current plans would make Bulgaria the largest single user of nuclear energy per capita.

The construction of two new 1,000 MW reactors is already under way at Bulgaria's sole nuclear power plant at Kozlodouk on the Danube. Mr Athanas Georgiev, science and technology director at the Energy Ministry, says that the plant now produces 1,760 Mw from four 440 MW reactors.

### Nuclear power

A new 1,000 MW reactor, built with Soviet assistance, should be operational by 1986 to be followed by a second two years later. Construction has also started on a second nuclear power plant near Belene, further east on the Danube, which will have four 1,000 MW reactors.

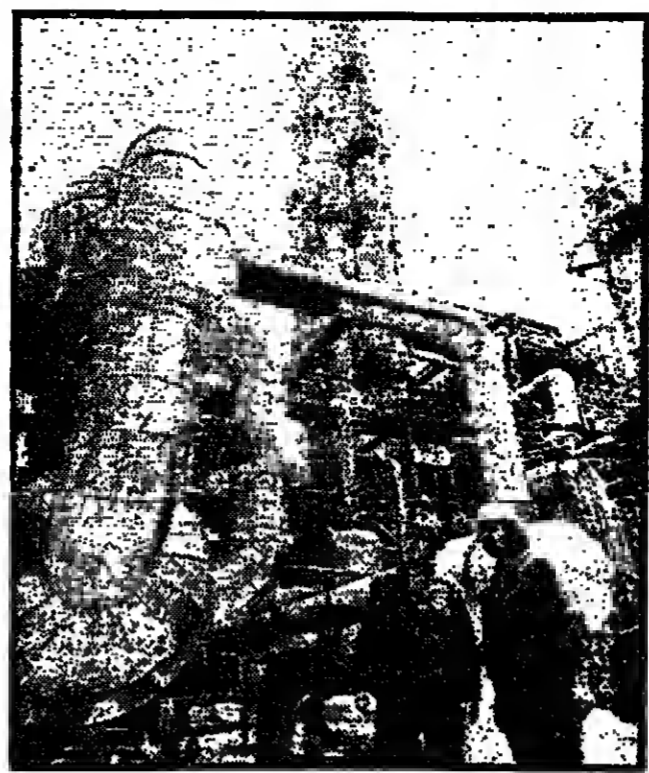
Bulgaria is also pressing ahead with plans to build its first nuclear power plant for heating. Officials say that construction of the plant has begun. It will produce domestic and industrial heating for Sofia and neighbouring towns and have a capacity of 300 MW. The feasibility study for a second plant has also been concluded.

Soviet assistance has played a crucial role in the rapid development of Bulgaria's energy industry, a fact readily acknowledged by the Bulgarians and this co-operation will remain a predominant factor in the future.

But Bulgaria's ambitious energy programme will also place it in a strong position as a regional energy supplier. Officials say that developments are designed to meet domestic demand only but Bulgaria has already been supplying electricity to Greece, Turkey, Yugoslavia and Romania.

The agreements with Greece broke down earlier this year when, according to Greek sources, Bulgaria unilaterally raised the price of its electricity exports by 10 per cent. This is regarded as a temporary halt in Sofia. Meanwhile negotiations are continuing with Turkey on increasing exports. Bulgarian electricity supplies to its neighbours are on an exchange basis, Mr Georgiev says, but they have been balanced only with Yugoslavia, Greece and Turkey have been net importers.

Forty years ago Bulgaria could not produce enough electricity to satisfy demand from its own tiny industries. It is now in the more comfortable position where it can expect to reap extra hard currency revenues from electricity exports on top of those it already earns from the sale of oil products to the west.



Maintenance operators at the chemical combine in Vratsa which manufactures nitrogen fertilisers and other chemical products

PROFILE: CHIMIMPORT

## Chemical giant predominant

MR KRASSIN GANCHEV, managing director of Chimimport—the state monopoly responsible for supplies and exports of oil, gas, petrochemicals and chemicals—has a finger on Bulgaria's economic pulse.

Founded in 1947 to supply Bulgaria with chemicals, Chimimport has grown to become the country's largest single trading organisation. With imports and exports worth U.S.\$5.3bn in 1983, it accounted for over one-fifth of Bulgaria's total trade turnover.

The Comecon countries were Chimimport's most important customers, with U.S.\$2.64bn worth of trade, the West's share was U.S.\$1.7bn.

### Biggest turnover

"We have the largest turnover in Bulgaria. The next largest company has a turnover three times lower than us," Mr Ganchev says.

At first glance the company's annual figures show that its exports are a good deal higher at U.S.\$4.1bn than its imports, which were worth U.S.\$1.25bn in 1983. But apart from the company's strategic importance as a provider of energy, it also fulfills another important role as a major earner of hard currency for Bulgaria through the sale of all products to the West which were worth U.S.\$800m last year.

Mr Ganchev likes to think that Chimimport's predominant place in the economy is the result of individual effort as well as good long-term planning. "Unlike other countries we didn't choose the easy way out buying all our chemicals, raw materials and semi-

finished products to produce only final products. Instead we created a chemical industry which is able to produce all the basic products." This, he argues, could not have been done without the crucial help of the Soviet Union.

He adds "to consolidate our name on the international market and face successfully the strong competition we relied entirely on the intelligence, flexibility and creativity of our hard-working staff."

The company now deals in several thousand products, has an export list of about 150 products and trades with more than 1,000 companies east and west including the U.S. Relations with these companies remain good despite deteriorating political relations, he says.

"After the U.S. Senate's decision (to block promotional funds for trade with Bulgaria), we received assurances from U.S. companies that they intended to maintain good business relations with us. One firm even asked if it should issue a statement to that effect," Mr Ganchev claims.

In any case the row is not expected to affect an agreement signed earlier this year with Dow Chemical to establish a 50-50 joint venture company in Sofia.

"This was not an easy agreement to reach because it involves joint investment and production, trading in third countries as well as research and development. We hope that it will be profitable. Both companies are eager to make it a success."

Patrick Blum

PROFILE: BALKANCAR PODEM

## Crane maker looks West

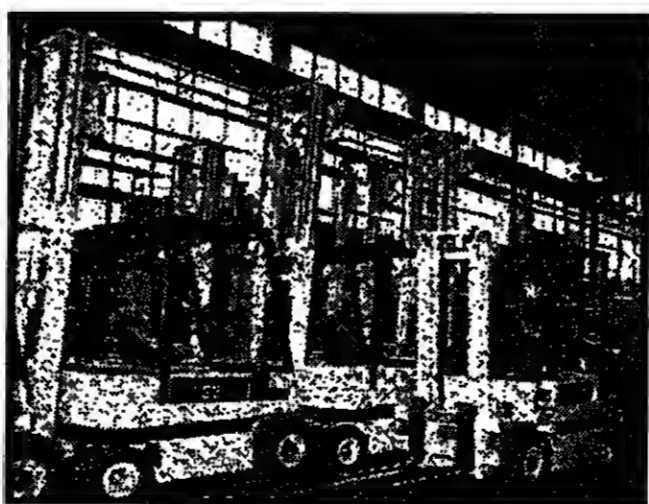
BALKANCAR PODEM, maker of electric hoists, storage machinery and cranes, is not worried at being overshadowed by its parent company Balkancar, the world-leading manufacturer of lift trucks. While the latter steals the headlines with attempts to take over western companies, Balkancar Podem has in a relatively short time established its own network of trading and production companies in the West.

In Italy it owns 72 per cent of Miele Paracad which makes hoists. In Portugal Pinhol Gomes makes cranes under a production agreement, and Fedim its fully-owned subsidiary in Singapore also makes cranes. Altogether it has co-operation agreements with 24 companies outside the communist bloc.

"We are the number one company making electric hoists," claims Mr Feneche Bontov, the company's president.

Last year the company exported about 122,000 hoists. In comparison its main competitor in West Germany produced only 40,000 hoists, Mr Bontov says. The company's turnover last year was U.S.\$225m with company profits of about U.S.\$26m representing 12 per cent of turnover. The company plans to double production during the next five years.

Balkancar Podem appears to have found a relatively



The country's largest producer of electric trucks is the September 6 plant in Sofia

comfortable niche in the world market for hoists. It exports to 40 countries although the largest share goes to the Soviet Union (66 per cent), the other Comecon countries (about 20 per cent) and the remainder to the West.

But it also makes highly specialised storage manipulating machinery the production of which it now hopes to expand with the development of complete storage systems.

"We are now experimenting with joint ventures in Italy and Argentina to produce complete systems," Mr Bontov says.

In 1983 Balkancar Podem took full control over production and marketing from Balkancar although it already had responsibility for production since 1976. The company is now completely independent. The break was necessary to allow greater concentration on development and marketing, Mr Bontov says. "Balkancar makes fork lifts

and the production of these gives a number of problems. Solving these distracted the management from (dealing with) other problems."

Difficulties in the industry world-wide have led the company to concentrate more on its Comecon market. "There is high competition in our branch. The number of our competitors has been reduced because of the crisis. Only the big ones remain in business," Mr Bontov says. He admits that access to the Comecon markets gives Balkancar Podem an edge over its Western competitors by providing a guaranteed level of production and stability. "Obviously it allows us to look at other markets without worrying about going bankrupt." With company plans to double production during the next five years, that hardly seems to be something to worry about.

P. B.



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SECTION III - INTERNATIONAL MARKETS FINANCIAL TIMES

Friday December 7 1984

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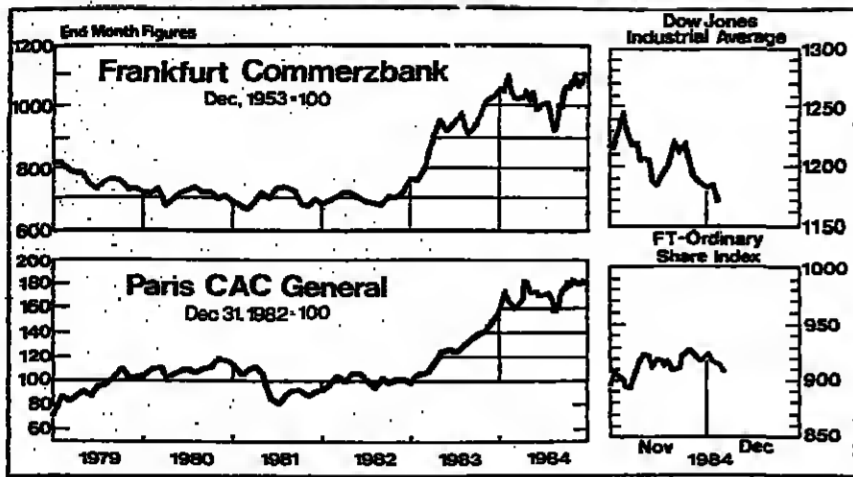


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Table with columns: U.S. BONDS, Dec 6, Prev. Rows: Treasury, Corporate, AT & T, U.S. Treasury Bills (BMM), U.S. Treasury Bills (BMM), U.S. Treasury Bills (BMM), U.S. Treasury Bills (BMM).

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Table with columns: COMMODITIES, Dec 6, Prev. Rows: London, Silver (spot fixing), Copper (cash), Coffee (Jan), Oil (spot Arabian Light).

WALL STREET

Uncertainty slow to subside

AN UNCERTAIN Wall Street stock market was awash yesterday with special situations involving several blue chips, writes Terry Byland in New York. Union Carbide shares plummeted in heavy turnover as the stock market assessed the possible financial implications of the disaster at the company's plant in India.

Selling of Union Carbide stock intensified after discussion in the investment press of the potential financial responsibility of the company. Trading was delayed for half an hour on the New York Stock Exchange as dealers struggled to cope with a fresh wave of selling orders waiting for the market to open.

The first deal was a block of 1.1m shares traded at \$38, a fall of 85% from overnight. A second block, 500,000 shares, was traded at the same price and a total of 4.2m shares changed hands before the price steadied to \$39 after the board said the group's financial structure was "not jeopardised".

Union Carbide's market capitalisation has tumbled by more than \$740m since the news of the tragedy, and Moody's Investors Services said yesterday it was considering downgrading Carbide's debt issues.

The rest of the industrial stock market was in better shape, helped by a turn for the better in IBM stock, which regained \$1 1/4 to \$119. Also on a recovery trend was the car sector, where Chrysler gained \$1 to \$28 1/2 after announcing that it would buy in up to 25m shares, or about one fifth of its equity. General Motors added \$ 1/2 to \$7 1/4.

By midsession the Dow Jones industrial average, dragged down at first by Union Carbide, had reversed an early slide of nearly six points. The activity was mostly in blue chips and special situations, with the broad range of the market holding steady.

At 3pm the Dow was down 0.86 at 1,170.84. Another high spot of the stock market was ITT, which jumped \$1 1/4 to \$31 1/4 amid confusion over turnover totals. Mr Irwin Jacobs confirmed that he was buying ITT stock, saying he had been "involved" in a 2.4m block trade at \$30 1/4 reported by Jefferies, the third-market trading firm. ITT said it believed that Batterymarch Financial Management, an institutional stockholder, was the seller.

Another reported block trade of 2m ITT shares at \$30 1/4 was later corrected by the New York Stock Exchange which said only 500,000 shares had been traded. Another 2m Phillips Petroleum shares traded, with the price firmer at first but later \$ 1/2 off at \$53, at which level the stock was suspended because of an imbalance of dealing orders. As expected, Phillips moved to block the bid from Mesa Petroleum by obtaining a temporary legal injunction. Meanwhile, Mr T. Boone Pickens said he expected to have the financing for his offer of \$80 a share by the weekend.

Following news of a long-awaited bid from Heileman, stock in Pabst, the brewer, added \$ 1/2 to \$10 1/4, against the \$11 bid terms. Firestone Tire, at \$16, added \$ 1/2 after the profits statement, while fellow tyre maker B. F. Goodrich held unchanged at \$2 1/2 despite disclosure of a \$12m charge on fourth-quarter profits.

Credit markets began to weaken as traders awaited the latest money supply figures, due late in the session. The federal funds rate steadied to 9 per cent, after the Federal Reserve aided liquidity with \$1.5bn in customer repurchase arrangements when the funds stood at 8 1/2 per cent. Treasury bill rates edged higher, six-month bills adding 6 basis points to 6.63 per cent. In the bond market, prices sagged to show falls of up to 1/2, putting the key long bond at 10 1/2.

TOKYO

Late flurry favours city banks

A LATE RALLY recouped early losses and sent share prices slightly higher in Tokyo yesterday, writes Shigeo Nishiwaki of Jiji Press.

Cautious against the recent rapid upswing dominated the market, though, with buying interest limited to low-priced, incentive-backed issues. The Nikkei-Dow market average gained 16.65 to 11,559.84 on volume of 483.86 shares, down steeply from 655.31m on the previous day. Advances outnumbered declines by 370 to 348, with 150 issues unchanged.

The barometer had been drifting lower since the start of trading. It turned up marginally, however, after city banks, among the 225 constituents, rebounded sharply just before the close.

Sumitomo Bank soared \$100 to a record \$1,070, Fuji Bank \$80 to \$1,290, and Dai-ichi Kangyo Bank \$40 to \$1,300. Investors increased purchases of these issues as Japan's top nine city banks will become eligible for margin trading next Monday.

Nomura Securities remained popular, gaining \$35 to \$85. Recently selected non-life insurances, however, eased into a lull. Low-priced stocks at under \$400 were bought in preference to speculative issues. Mitsui Toatsu topped the most active list with 36.42m shares changing hands, adding \$11 to \$203.

Nippon Oil and Fats, the second busiest stock with 13.25m shares traded, jumped \$22 to \$455, bolstered by its advance into the biotechnology field. Toyoko, however, lost \$10 to \$1,090 under profit-taking pressure and Asahi Chemical fell \$21 to \$640.

Blue chips eased on small-lot selling triggered by Wall Street's dull performance. Pioneer Electronic leaped \$80 to \$2,700, however, fuelled by foreign buying of about 1m shares.

Buy orders placed by foreign investors with Japan's big four securities houses in early trading totalled 22m shares against sell orders for 24m shares.

Bond prices eased slightly in inactive trading due to the weaker yen and growing profit-taking pressure. The yield on the barometer 7.3 per cent government bonds, maturing in December 1993, rose from Wednesday's 6.545 per cent to 6.570 per cent - the first rise in four trading days.

SINGAPORE

SMALL GAINS were achieved in late Singapore trading as the Straits Times industrial index rose 2.24 to 617.83. Among active stocks, First A Corporation rose 5 cents to \$82.55. Faber Merlin - the most active in the previous session - put on 1 cent to \$81.36 and Sime Darby advanced 3 cents to \$81.57.

Hotel, property and commodity issues were marginally higher where traded.

EUROPE

A swifter buying pace for Swiss

BUYING of Swiss shares gained pace yesterday, extending the gains notched up without interruption through the week and returning share values to levels not seen since the first few trading days of this year.

The extension of the Zurich advance came on a day when many other continental European centres were prone to profit-taking amid disappointment at Wall Street's overnight inability to shake off its weaker trend, and when the neighbouring French market suffered a pronounced setback.

Lively dealings took the Swiss Bank Corporation general index of 90 issues 0.9 higher to 404.2, surpassing the peak set on January 6.

The banking sector - which for many European hours is beginning to draw brokers' recommendations, based on the prospect of a plateau soon in debt provisions - drew somewhat better demand than the industrial side. Baer Holding jumped SwFr 125 to SwFr 7,150 while of the majors Swiss Bank itself put on SwFr 3 to SwFr 361.

Swiss Re reached the SwFr 6,000 level with a gain of SwFr 50, up SwFr 300 on the week so far, and a SwFr 400 surge in retailer Globus at SwFr 3,400 was attributed to a good pre-Christmas sales showing.

Chemicals and foods were dull, though, with Sandoz at SwFr 7,250 and



Jacobs Suchard at SwFr 6,150 each SwFr 25 lower. Domestic bonds were quietly firmer. The bond market debacle spilled over into Paris stocks, which drew heavy selling and left the Indicateur de Tendence 1.9 off at 119.8. Leading the way down was Lesieur, reacting to a dip into loss by the oilseed group - at FFr 990 its fall on the day was FFr 139 or 12.3 per cent.

Other setbacks included FFr 16 for Thomson-CSF at FFr 373, and FFr 9.80 in Peugeot on FFr 228, but recently volatile Roussel-Uclaf managed a FFr 20 rise at FFr 1,625.

Frankfurt turned towards consolidation after the peaks set this week, and the Commerzbank index slipped back below the 1,100 point with a 5.6 retreat to 1,097.2. Chemicals drew the most business, on expectations of lower raw material prices, but by the close Hoechst was just 30 pig firmer at DM 186.60 and BASF had edged 50 pig off to DM 176.50.

A quiet Amsterdam reversal showed disappointment with results from Philips, down Ft 3.70 at Ft 52.80, and insurer Aegon, off Ft 3 to Ft 138.50. Bonds tended easier.

Progress was managed in Brussels, particularly by Société Générale which rose BFr 70 to BFr 1,670 amid good demand for its rights. GBL, also undertak-

LONDON

Overseas factors distract

A NUMBER of good trading results failed to excite another drab London market yesterday as transatlantic factors - in the shape of a hefty overnight fall on Wall Street and persistent concern about U.S. economic prospects - distracted the attention of equity investors. The FT Ordinary index closed 6.5 down at 906.4.

Government securities, particularly index-linked issues, held up well, although conventional stocks fluctuated narrowly before finishing 1/4 down on the day.

Banks were unsettled by renewed suggestions of a possible rights issue from Lloyds which closed 8p down at 495p. Chief price changes, Page 30, Details, Page 31; Share information service, pages 32-33.

HONG KONG

SUBSTANTIAL selling pressure pushed Hong Kong lower during the last half-hour of trading with the Hang Seng index dropping 15.34 to 1,120.75. The technical consolidation was widespread as Jardine Matheson fell 25 cents to HK\$8.30, Hongkong Land was 13 cents weaker at HK\$3.75. Even HK and Kowloon Wharf, which reported healthy profits growth, slipped 7 cents to HK\$4.65.

AUSTRALIA

RESOURCE issues took the brunt of Sydney selling following weaker London metal prices and a surge in the U.S. dollar. The All Ordinaries index dropped 9.6 to 727.7 with the All Resources 10.3 weaker at 462.1. Western Mining and Central Norseman slipped 10 cents each to A\$2.88 and A\$5.20 respectively. North Broken Hill was 14 cents off at A\$2 and CRA turned 11 cents cheaper at A\$4.91.

SOUTH AFRICA

A STATIC bullion price left most Johannesburg gold shares unchanged to slightly mixed against a backdrop of Government plans to abolish tax advantages for mine mergers.

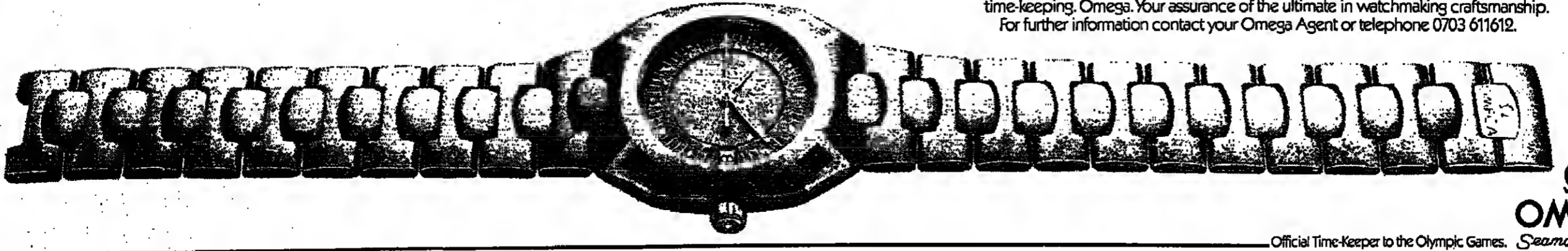
Anglo American lost 10 cents to R23.90 prior to its denial that the proposed legislation would alter its plan to merge six Orange Free State mines into one unit. Free State Geduld, one of the mines affected, added 50 cents to R52.50.

CANADA

AN EXTENSION of the previous session's losses took most Toronto share sectors lower with some evidence of strength in golds and consumer products.

The decline in Montreal proved less acute. An afternoon attempt at a rally, however, pulled prices off their worst in both centres.

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Prices at 3pm, December 6

# NEW YORK STOCK EXCHANGE COMPOSITE PRICES

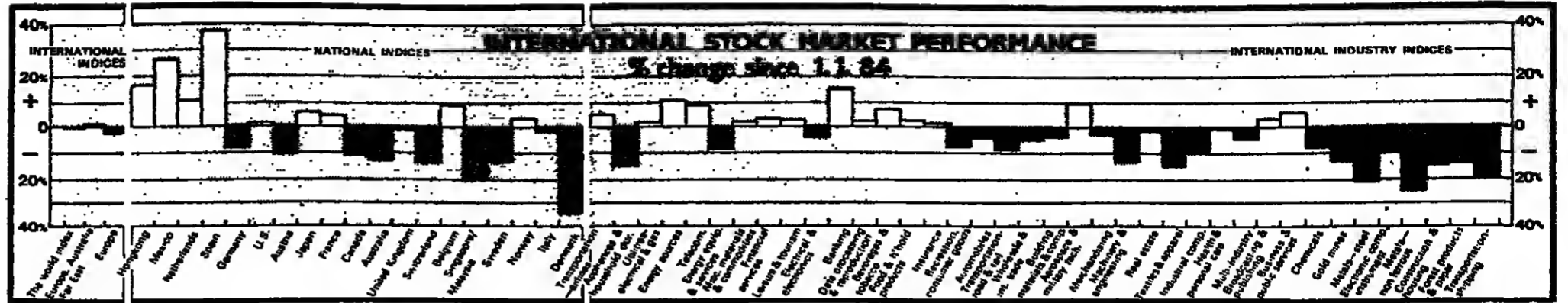
12 Month	High	Low	Stock	Dr. Yr.	P/ E	12 Month	High	Low	Stock	Dr. Yr.	P/ E	12 Month	High	Low	Stock	Dr. Yr.	P/ E
12.1	12.1	12.1	AAR	10.0	10.0	12.1	12.1	12.1	ABC	10.0	10.0	12.1	12.1	12.1	ABC	10.0	10.0
12.2	12.2	12.2	ABR	10.0	10.0	12.2	12.2	12.2	ABD	10.0	10.0	12.2	12.2	12.2	ABD	10.0	10.0
12.3	12.3	12.3	ABT	10.0	10.0	12.3	12.3	12.3	ABE	10.0	10.0	12.3	12.3	12.3	ABE	10.0	10.0
12.4	12.4	12.4	ABX	10.0	10.0	12.4	12.4	12.4	ABF	10.0	10.0	12.4	12.4	12.4	ABF	10.0	10.0
12.5	12.5	12.5	ABY	10.0	10.0	12.5	12.5	12.5	ABG	10.0	10.0	12.5	12.5	12.5	ABG	10.0	10.0
12.6	12.6	12.6	ABA	10.0	10.0	12.6	12.6	12.6	ABH	10.0	10.0	12.6	12.6	12.6	ABH	10.0	10.0
12.7	12.7	12.7	ABB	10.0	10.0	12.7	12.7	12.7	ABI	10.0	10.0	12.7	12.7	12.7	ABI	10.0	10.0
12.8	12.8	12.8	ABC	10.0	10.0	12.8	12.8	12.8	ABJ	10.0	10.0	12.8	12.8	12.8	ABJ	10.0	10.0
12.9	12.9	12.9	ABD	10.0	10.0	12.9	12.9	12.9	ABK	10.0	10.0	12.9	12.9	12.9	ABK	10.0	10.0
13.0	13.0	13.0	ABE	10.0	10.0	13.0	13.0	13.0	ABL	10.0	10.0	13.0	13.0	13.0	ABL	10.0	10.0
13.1	13.1	13.1	ABF	10.0	10.0	13.1	13.1	13.1	ABM	10.0	10.0	13.1	13.1	13.1	ABM	10.0	10.0
13.2	13.2	13.2	ABG	10.0	10.0	13.2	13.2	13.2	ABN	10.0	10.0	13.2	13.2	13.2	ABN	10.0	10.0
13.3	13.3	13.3	ABH	10.0	10.0	13.3	13.3	13.3	ABO	10.0	10.0	13.3	13.3	13.3	ABO	10.0	10.0
13.4	13.4	13.4	ABI	10.0	10.0	13.4	13.4	13.4	ABP	10.0	10.0	13.4	13.4	13.4	ABP	10.0	10.0
13.5	13.5	13.5	ABJ	10.0	10.0	13.5	13.5	13.5	ABQ	10.0	10.0	13.5	13.5	13.5	ABQ	10.0	10.0
13.6	13.6	13.6	ABK	10.0	10.0	13.6	13.6	13.6	ABR	10.0	10.0	13.6	13.6	13.6	ABR	10.0	10.0
13.7	13.7	13.7	ABL	10.0	10.0	13.7	13.7	13.7	ABS	10.0	10.0	13.7	13.7	13.7	ABS	10.0	10.0
13.8	13.8	13.8	ABM	10.0	10.0	13.8	13.8	13.8	ABT	10.0	10.0	13.8	13.8	13.8	ABT	10.0	10.0
13.9	13.9	13.9	ABN	10.0	10.0	13.9	13.9	13.9	ABU	10.0	10.0	13.9	13.9	13.9	ABU	10.0	10.0
14.0	14.0	14.0	ABO	10.0	10.0	14.0	14.0	14.0	ABV	10.0	10.0	14.0	14.0	14.0	ABV	10.0	10.0
14.1	14.1	14.1	ABP	10.0	10.0	14.1	14.1	14.1	ABW	10.0	10.0	14.1	14.1	14.1	ABW	10.0	10.0
14.2	14.2	14.2	ABQ	10.0	10.0	14.2	14.2	14.2	ABX	10.0	10.0	14.2	14.2	14.2	ABX	10.0	10.0
14.3	14.3	14.3	ABR	10.0	10.0	14.3	14.3	14.3	ABY	10.0	10.0	14.3	14.3	14.3	ABY	10.0	10.0
14.4	14.4	14.4	ABA	10.0	10.0	14.4	14.4	14.4	ABZ	10.0	10.0	14.4	14.4	14.4	ABZ	10.0	10.0
14.5	14.5	14.5	ABB	10.0	10.0	14.5	14.5	14.5	ACA	10.0	10.0	14.5	14.5	14.5	ACA	10.0	10.0
14.6	14.6	14.6	ABC	10.0	10.0	14.6	14.6	14.6	ACB	10.0	10.0	14.6	14.6	14.6	ACB	10.0	10.0
14.7	14.7	14.7	ABD	10.0	10.0	14.7	14.7	14.7	ACC	10.0	10.0	14.7	14.7	14.7	ACC	10.0	10.0
14.8	14.8	14.8	ABE	10.0	10.0	14.8	14.8	14.8	ACD	10.0	10.0	14.8	14.8	14.8	ACD	10.0	10.0
14.9	14.9	14.9	ABF	10.0	10.0	14.9	14.9	14.9	ACE	10.0	10.0	14.9	14.9	14.9	ACE	10.0	10.0
15.0	15.0	15.0	ABG	10.0	10.0	15.0	15.0	15.0	ACF	10.0	10.0	15.0	15.0	15.0	ACF	10.0	10.0
15.1	15.1	15.1	ABH	10.0	10.0	15.1	15.1	15.1	ACG	10.0	10.0	15.1	15.1	15.1	ACG	10.0	10.0
15.2	15.2	15.2	ABI	10.0	10.0	15.2	15.2	15.2	ACH	10.0	10.0	15.2	15.2	15.2	ACH	10.0	10.0
15.3	15.3	15.3	ABJ	10.0	10.0	15.3	15.3	15.3	ACI	10.0	10.0	15.3	15.3	15.3	ACI	10.0	10.0
15.4	15.4	15.4	ABK	10.0	10.0	15.4	15.4	15.4	ACJ	10.0	10.0	15.4	15.4	15.4	ACJ	10.0	10.0
15.5	15.5	15.5	ABL	10.0	10.0	15.5	15.5	15.5	ACK	10.0	10.0	15.5	15.5	15.5	ACK	10.0	10.0
15.6	15.6	15.6	ABM	10.0	10.0	15.6	15.6	15.6	ACL	10.0	10.0	15.6	15.6	15.6	ACL	10.0	10.0
15.7	15.7	15.7	ABN	10.0	10.0	15.7	15.7	15.7	ACM	10.0	10.0	15.7	15.7	15.7	ACM	10.0	10.0
15.8	15.8	15.8	ABO	10.0	10.0	15.8	15.8	15.8	ACN	10.0	10.0	15.8	15.8	15.8	ACN	10.0	10.0
15.9	15.9	15.9	ABP	10.0	10.0	15.9	15.9	15.9	ACO	10.0	10.0	15.9	15.9	15.9	ACO	10.0	10.0
16.0	16.0	16.0	ABQ	10.0	10.0	16.0	16.0	16.0	ACP	10.0	10.0	16.0	16.0	16.0	ACP	10.0	10.0
16.1	16.1	16.1	ABR	10.0	10.0	16.1	16.1	16.1	ACQ	10.0	10.0	16.1	16.1	16.1	ACQ	10.0	10.0
16.2	16.2	16.2	ABS	10.0	10.0	16.2	16.2	16.2	ACR	10.0	10.0	16.2	16.2	16.2	ACR	10.0	10.0
16.3	16.3	16.3	ABT	10.0	10.0	16.3	16.3	16.3	ACS	10.0	10.0	16.3	16.3	16.3	ACS	10.0	10.0
16.4	16.4	16.4	ABU	10.0	10.0	16.4	16.4	16.4	ACT	10.0	10.0	16.4	16.4	16.4	ACT	10.0	10.0
16.5	16.5	16.5	ABV	10.0	10.0	16.5	16.5	16.5	ACU	10.0	10.0	16.5	16.5	16.5	ACU	10.0	10.0
16.6	16.6	16.6	ABW	10.0	10.0	16.6	16.6	16.6	ACV	10.0	10.0	16.6	16.6	16.6	ACV	10.0	10.0
16.7	16.7	16.7	ABX	10.0	10.0	16.7	16.7	16.7	ACW	10.0	10.0	16.7	16.7	16.7	ACW	10.0	10.0
16.8	16.8	16.8	ABY	10.0	10.0	16.8	16.8	16.8	ACX	10.0	10.0	16.8	16.8	16.8	ACX	10.0	10.0
16.9	16.9	16.9	ABZ	10.0	10.0	16.9	16.9	16.9	ACY	10.0	10.0	16.9	16.9	16.9	ACY	10.0	10.0
17.0	17.0	17.0	ACA	10.0	10.0	17.0	17.0	17.0	ACZ	10.0	10.0	17.0	17.0	17.0	ACZ	10.0	10.0
17.1	17.1	17.1	ACB	10.0	10.0	17.1	17.1	17.1	ADA	10.0	10.0	17.1	17.1	17.1	ADA	10.0	10.0
17.2	17.2	17.2	ACC	10.0	10.0	17.2	17.2	17.2	ADB	10.0	10.0	17.2	17.2	17.2	ADB	10.0	10.0
17.3	17.3	17.3	ACD	10.0	10.0	17.3	17.3	17.3	ADC	10.0	10.0	17.3	17.3	17.3	ADC	10.0	10.0
17.4	17.4	17.4	ACE	10.0	10.0	17.4	17.4	17.4	ADD	10.0	10.0	17.4	17.4	17.4	ADD	10.0	10.0
17.5	17.5	17.5	ACF	10.0	10.0	17.5	17.5	17.5	ADE	10.0	10.0	17.5	17.5	17.5	ADE	10.0	10.0
17.6	17.6	17.6	ACG	10.0	10.0	17.6	17.6	17.6	ADF	10.0	10.0	17.6	17.6	17.6	ADF	10.0	10.0
17.7	17.7	17.7	ACH	10.0	10.0	17.7	17.7	17.7	ADG	10.0	10.0	17.7	17.7	17.7	ADG	10.0	10.0
17.8	17.8	17.8	ACI	10.0	10.0	17.8	17.8	17.8	ADH	10.0	10.0	17.8	17.8	17.8	ADH	10.0	10.0
17.9	17.9	17.9	ACJ	10.0	10.0	17.9	17.9	17.9	ADI	10.0	10.0	17.9	17.9	17.9	ADI	10.0	10.0
18.0	18.0	18.0	ACK	10.0	10.0	18.0	18.0	18.0	ADJ	10.0	10.0	18.0	18.0	18.0	ADJ	10.0	10.0
18.1	18.1	18.1	ACL	10.0	10.0	18.1	18.1	18.1	ADK	10.0	10.0	18.1	18.1	18.1	ADK	10.0	10.0
18.2	18.2	18.2	ACM	10.0	10.0	18.2	18.2	18.2	ADL	10.0	10.0	18.2	18.2	18.2	ADL	10.0	10.0
18.3	18.3	18.3	ACN	10.0	10.0	18.3	18.3	18.3	ADM	10.0	10.0	18.3	18.3	18.3	ADM	10.0	10.0
18.4	18.4	18.4	ACO	10.0	10.0	18.4	18.4	18.4	ADN	10.0	10.0	18.4	18.4	18.4	ADN	10.0	10.0
18.5	18.5	18.5	ACP	10.0	10.0	18.5	18.5	18.5	ADO	10.0	10.0	18.5	18.5	18.5	ADO	10.0	10.0
18.6	18.6	18.6	ACQ	10.0	10.0	18.6	18.6	18.6	ADP	10.0	10.0	18.6	18.6	18.6	ADP	10.0	10.0
18.7	18.7	18.7	ACR	10.0	10.0	18.7	18.7	18.7	ADQ	10.0	10.0	18.7	18.7	1			



# FINANCIAL TIMES SURVEY

## International Fund Management

Obstacles still remain but advances in technology are demolishing barriers to portfolio diversification and encouraging internationalisation of the world's capital markets



Source: Capital International (Geneva)—Measured throughout in dollars.

### Increased emphasis placed on taking a global view

By BARRY RILEY

THAT U.S. Treasury officials should hold roadshows around Europe to sell U.S. Government bonds is not in itself such a giant stride in international finance. It was as long ago as 1805, after all, that Dutch investors bought the bonds which financed the Louisiana Purchase.

But the internationalisation of the major world capital markets is now proceeding at a pace which promises to transform the scale of cross-frontier financing. Already the Euro-market has developed a bond market which knows no real national boundaries.

Now, albeit with teething troubles, multi-centre equity issues are being launched. Reuters was floated last May simultaneously in London and New York, while British Telecom has been offered to investors in the U.S., Canada, and Japan as well as the UK (and, on a modest scale, to Continental European institutions too).

Much of the growth of international financing and investment has to do with technological change. Instant communication with virtually all parts of

the globe has removed much of the fear of investors that they might be left in ignorance while the locals protected their own positions.

And dealing and settlement has become quicker and more reliable even if there remain irritating national differences in systems, and there is a long way to go before the transactions side can catch up with the instant reactions of monitor screens.

Meanwhile, many of the underlying investments have also become international in character. The growth of multinational businesses has required investors to adopt something of the same approach. Smith Kline may be American and Glaxo British, but they trade in the same worldwide markets for drugs, and it has become increasingly unrealistic for investors to place them in separate compartments.

Of course, formidable obstacles still remain. Foreign exchange controls persist in many countries, or other more subtle barriers do overseas investment, such as restrictions on the shape of institutional

portfolios. Accounting and disclosure requirements for companies vary substantially — a nettie which has been partly grasped in Japan, but hardly at all in several Continental European countries (though it is notable that a company like Fiat has begun to publish consolidated accounts).

But despite the obstacles, even the traditionally inward-looking investors of the U.S. are beginning to take overseas opportunities seriously — and there is keen watching of the Japanese scene, where liberalisation could lead to much greater purchases of overseas equities by Japanese institutions, which are already major buyers of dollar bonds.

In the past, the pioneers of international investment have tended to be investors in small countries like Switzerland or the Netherlands, where local markets have been small and the range of choice limited.

Now, even the Americans, with all the domestic choice available to them, are sending abroad sums which may still be modest in a domestic context but are making a big impact

in a number of overseas markets.

This U.S. pension plans are estimated to have something like \$15bn invested in foreign equities. The major single perceived opportunity has been to invest in Japanese growth stocks. But increasing numbers of pension plans are taking a broad view of global opportunities, influenced by the ERISA legislation which encourages trustees to diversify their portfolio as far as reasonably possible.

American financial theorists have convinced many pension plan sponsors that international investment can contribute to a more favourable risk-return ratio.

Recent results of this overseas exposure have not been particularly favourable for U.S. funds. The strength of the U.S. dollar has masked the underlying local currency gains in many markets worldwide.

W.M. Computer Services of Edinburgh (now split off from its former parent, stockbrokers Wood Mackenzie) monitors the performance of some 80 international portfolios geared to non-U.S. markets. In the four years to end-September 1984, these have achieved an overall return in dollar terms on equities of 7.7 per cent on an annualised basis—against 12.9 per cent on the Standard and Poors 500 Index.

The Far East, especially Japan, has performed well over the period, but Europe has been

poor. Much the same has been true on a shorter, one-year view.

But, of course, many regard the recent levels of the dollar as being unrealistic, and a prolonged spell of dollar weakness could greatly increase the benefits of international exposure for American funds.

At any rate, U.S. pension plans appear to be maintaining their enthusiasm for overseas investment—though London fund managers report that there is some shuffling of investment advisers going on as trustees assess results extending over several years and come to conclusions about which managers are achieving their promised performance goals and which are not.

London managers have been particular beneficiaries of the internationalisation of U.S. institutional investment. American money managers have generally been slow to embark on global commitments, with a few exceptions such as Morgan Guaranty, Fidelity and Capital Guardian—and even they have relied heavily on London branch offices.

British merchant banks like Morgan Grenfell and Raring Brothers have seized their opportunities, sometimes through partnerships such as Rowe Price Fleming, an alliance between T. Rowe Price of Boston and Robert Fleming of London. Independent fund managers such as CT Management have also been active in the field.

Now Robert Fleming, through

its Far Eastern joint operation Jardine Fleming, is forging an advisory link with Yasuda Trust and Banking. Initially the arrangements will be focused on domestic Japanese funds but it might lead on to management of overseas money for Japanese domestic clients—a market which many managers are hoping to find a way of getting into.

Yet meantime a pull between East and West is leading to the break-up of Henderson Baring Management, a partnership between Baring Brothers, the London merchant bank, and Henderson Administration Group, the portfolio management specialists. Currently, HBM is managing \$1.4bn of Far Eastern investments.

Henderson wants to compete for the international business of U.S. pension plans, but is required under U.S. regulations to split away from Baring which is already active in the ERISA field. Henderson will set up its own Far East management capability.

London has a number of advantages as a centre for management of international portfolios. Apart from a long history as an international centre, and a reputation for ethical dealing, it is well-placed to become a time zone centre, falling neatly between the Far East and the U.S.

There have been recent signs that other European financial institutions are coming to terms with London's likely pre-eminence. Union Bank of

Switzerland has agreed to buy Phillips and Drew, the leading London brokerage house—which has a fund management offshoot managing some \$4bn.

The commitment of the British authorities to the internationalisation of London is crucial to such developments. The Government has agreed to the reduction of stamp duty, a securities transaction tax, and has been flexible in developing a fiscal framework for the financial futures and traded options markets.

And most crucially, the Government has pushed the London Stock Exchange into dropping many of its barriers to overseas participation. Membership rules are to be drastically revamped, and the market is to adopt trading methods closely modelled on the computerised NASDAQ system of the National Association of Securities Dealers in the U.S.

Several foreign-owned securities houses are likely to be granted licences by the Bank of England to become market makers in the new-style gilt-edged market. Applications are to be invited early next year, and the new structure—similar to that effective in the U.S. Treasury Bond market—could become operational some time in 1986.

This is the kind of step which is gradually turning the multitude of national securities markets into an international network. It will be a slow process, and while it is encouraged

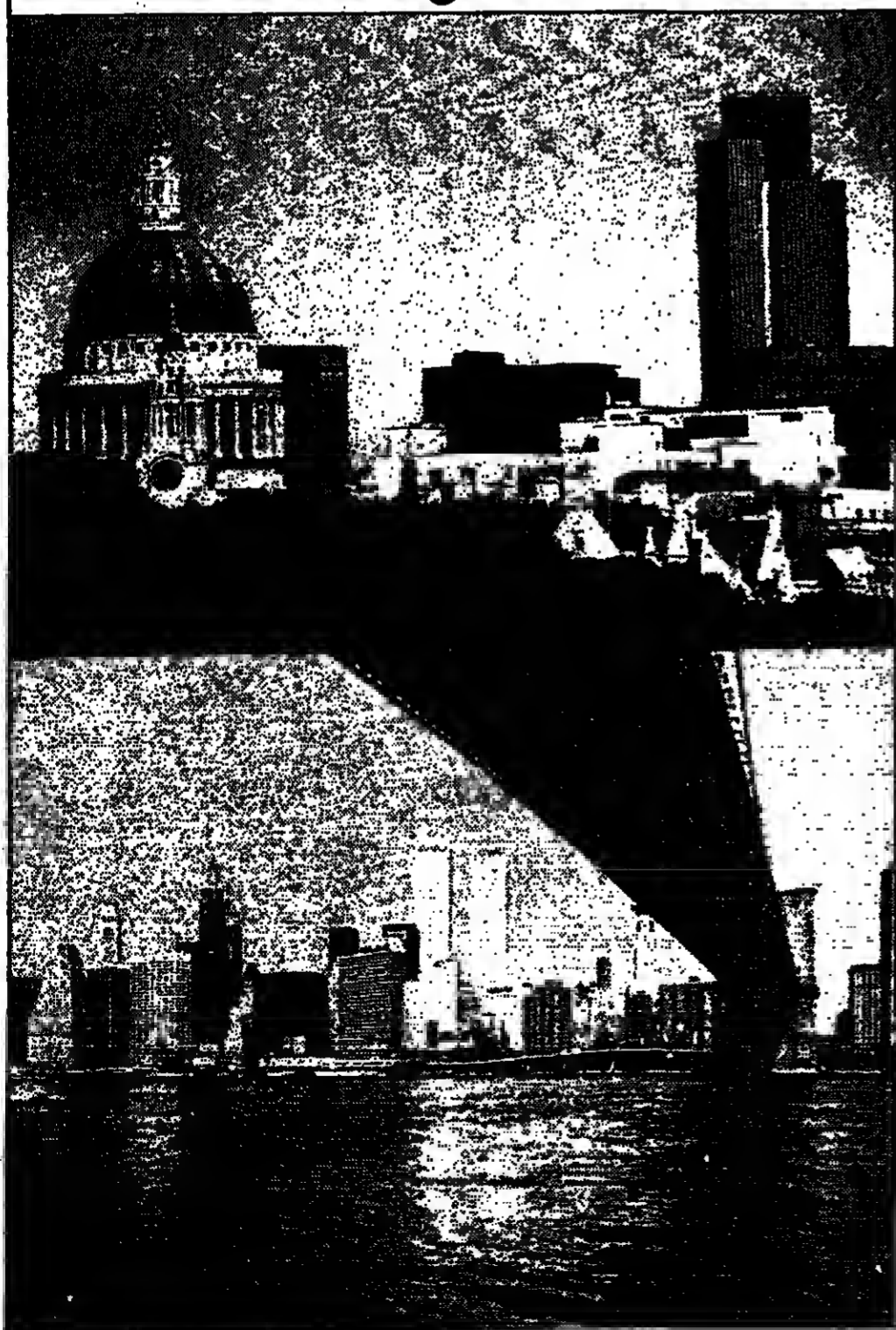
by favourable conditions of the kind which have been seen in the past few years, future bear markets and financial crises are bound to lead to periods of retrenchment.

But the inevitable march of technology is demolishing barriers and encouraging today's portfolio manager to treat the whole world as his market.

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## International Fund Management 2

# Cross-border phenomenon

**International Fund Managers**  
BARRY RILEY

SUCCESS these days in international investment management is not just a question of achieving good portfolio performance. It also depends very much on the ability of the fund management organisation to market itself to international clients.

The traditional emphasis of internationally oriented funds has been to collect money domestically and spread it around attractive overseas opportunities. This was the pattern with the Scottish investment trusts in the last century, for instance, and the Swiss banks have also thrived on the requirements of the wealthy middle classes in a small country where domestic opportunities have been relatively restricted.

The new phenomenon, however, is that investors even in major economies — the most notable example being the U.S. — are also becoming ready to put their money outside their own borders. Even the Japanese are moving in this direction, the country having become a major exporter of capital, though the Japanese markets continue to be tightly hedged around with controls.

There has thus arisen the opportunity for international investment expertise itself to be sold internationally. The big banks, with their global branch networks have been the first to place to establish this trend. Morgan Guaranty, for instance, was a pioneer some years ago in shifting U.S. pension plan money to London to be managed by its international division. But now a great many much smaller operators are making an impact.

Thus the relatively modestly sized London fund management business John Govett, based on investment trusts, has arranged for the U.S. West Coast bank Security Pacific to take a roughly one-third stake in its equity. The idea is that the U.S. bank will now channel investment money to London to be managed globally by its British associate.

Another medium-sized UK investment trust management house, Tonche Renault, is being up with the Bank of Tokyo.



The two have set up a joint London company to which the Japanese bank will refer business from its overseas branches (though Japanese rules prevent it from transacting investment business for its domestic customers).

And various independent fund management firms, mostly American or British, are sending their marketing men out on expensive trips to garner business, particularly from the diversifying U.S. pension plans.

**Intermediaries**

Their task is made a little easier by the appearance of specialist intermediaries such as Frank Russell and InterSec Research, one of whose roles is to advise clients on the choice of specialist managers. They tread in U.S. domestic fund management has been towards the division of large portfolios between managers with different styles, and applied on the international scene this gives quite small boutiques the chance to make their pitch.

Of course, a firm consisting of just two or three partners will find it hard to convince potential clients that it can successfully cover the world's markets (though several British unit trusts with global portfolios seem to prosper on minimal resources).

The big money continues to be placed with the major banks which have clear experience and depth of resources, although in conditions of rapid change in the securities industry — with correspondingly hectic activity on the part of headhunters — the poaching of

top fund managers can be a problem.

These big banks usually have a rather highly structured style of operation — a "top down" approach in which individual fund managers have to fit in with quite rigid strategic decisions, made by a high-level committee.

This means that the exposure to various markets, currencies and industry sectors would be laid down, leaving only a limited area of choice in stock selection.

This will restrict the scope for sparkling performance, but will also reduce the risks. The extreme case of such an approach would be formal global indexation, representing an attempt to match the performance of a world index by investing proportionately in a large number of high-capitalisation stocks.

But there are a number of independent fund management companies which offer much more individual styles. They include GT Management and Ivory and Sime in the UK and Fidelity and Capital Group of the U.S. Such managers seek to achieve above-average performance though they also charge comparatively high fees.

Fee levels, incidentally, are something of a bone of contention for the independents, who claim that they are unfairly undercut by the banks. The suggestion is that although the banks' direct fees appear to be low, the banks make a variety of other charges through the back door, in everything from inflated currency dealing costs to unnecessarily high custodianship charges.

The independents usually have a distinctive view on how to approach global management. Some, like GT, have a string of local branches around the world — while Ivory and Sime prefer its people to operate out of one office, so that the style of the house can be kept under closer control.

Some are heavy users of brokers' research material but Capital Group, which runs global funds through Capital International, insists on conducting its own expensive research at the corporate level, on the view that consistent long-term performance is likely to be achieved only by those who refuse to run with the herd.

Meanwhile, there are many variations on the theme of international management techniques. Some managers like simply to search out the best companies, wherever they may be; others prefer to work on an industry basis, developing expertise in sectors such as high technology or energy, and still others are structured on a geographical basis, aiming to make money out of market timing, even swings in currency exposure, as well as stock selection.

**Imperfect guide**

Various performance measurement services are being developed on an international basis, and the results of these will clearly have an important influence on the decisions of clients when they hire and fire managers. But historical performance can only be an imperfect guide to the results that might be achieved in the future.

Much will depend on the continuity of management that can be achieved. With the rapid pace of developments in international fund management, personnel turnover tends to be rapid. The smaller independents are theoretically more vulnerable, but in practice can often achieve stability through personal shareholding arrangements for key managers.

Another key question concerns the attitude of clients to the kind of broadly based international financial services conglomerates that are being created. They are designed to pull in business through international marketing networks. But they will have to satisfy clients that their interests will not be compromised by conflicts between the various arms of such wide-ranging groups.

Profile: Fidelity International

By Stefan Wagstyl

## Strengths of independent role

FIDELITY INTERNATIONAL thinks of itself as one of the most international of investment management groups. Launched as the international arm of FMR (Fidelity Management and Research, the largest independent mutual fund company in the U.S.), it started life in 1968, managing offshore funds in Bermuda. A year later it became the first fund manager to open an office in Japan, followed by one in Hong Kong. The group is a recent arrival in London, having launched its first UK unit trusts in 1979 and began managing British pension funds in 1982.

The last five years have seen particularly rapid growth at Fidelity International: funds under management have leapt from \$490m in 1979 to \$2.3bn at the end of last year, divided between U.S. pension funds (35 per cent), other institutional funds (29 per cent), offshore funds (27 per cent) and unit trusts (9 per cent).

But Mr James Towner, managing director of Fidelity's London subsidiary, says that this expansion has been carefully controlled. Fidelity ensures that growth in staff, now numbering 230 worldwide.

In Fidelity's view, three elements lie at the heart of its continuing development and distinguish it from many other investment management groups.

First, the group is very proud of its independence. It is separate from Boston-based FMR which spawned it, although the founding Johnson family retain controlling stakes in each concern. The remaining equity of Fidelity International is in the hands of managers like Mr Towner.

Independence means that the group is free to concentrate on its investment management role, without the need to conform to the wishes of a larger organisation. "We have no ambition to become

a bank, merchant bank or insurance company. We are investment managers and nothing else," says Mr Towner.

The second distinguishing element of Fidelity is its emphasis on decentralisation, with offices staffed by nationals of the country in which they are located. Expatriates are sent abroad only to Hong Kong.

Choosing shares is the responsibility of the local office — so a UK pension fund would have, in addition to a UK team, managers in the U.S., Tokyo and Hong Kong. Mr Towner says that in this way Fidelity is much more sensitive to the peculiarities of each market.

The third theme of Fidelity's development has been its deliberate specialisation in equity management. It believes that its particular skills lie in stock selection, relying both on fundamental and technical (chart) analysis and on visits to over 2,500 companies a year, world wide. Fixed-interest investments

play a very small role in pension fund management. The group says it is after long-term growth in assets and in dividends to match the long-term liabilities of the funds it manages. And it is prepared to stick its neck out, taking large positions if it believes in a particular market or stock.

Fidelity does have an eye for the eventual opening up of the management of Japanese funds by foreign investment groups. But it sees its immediate future in the U.S. and the UK, where its pension fund clients include General Electric (U.S.), IBM, and Tate and Lyle.

The growing desires of U.S. funds to look overseas must clearly offer tempting prospects to Fidelity. U.S. pension funds invest only 5 to 10 per cent of the money managed, compared with 20 per cent for British funds. But the proportion has grown rapidly from only 1 to 2 per cent five years ago.

## Multi dimensional approach required

**Performance Measurement**  
ERIC SHORT

THE measurement of the performance of funds has assumed an important central role in the international investment scene. Nowhere is this development happening more rapidly or radically than in the field of pension fund investment.

With exacting demands being imposed on investment managers those organisations providing pension fund performance services are now producing detailed in-depth analysis of performance of funds in order to quantify and explain the actual performance and achievements of investment managers.

It is no longer sufficient to adopt a one dimensional approach to performance measurement, simply calculating the overall mean time-weighted rate of return for the whole fund. A multi-dimensional approach to performance measurement is required to meet the current demands not only of employers, but of the investment managers themselves.

The aim of performance measurement, as far as pension funds are concerned, is not just to show whether the fund is meeting its primary target of

out-performing inflation by an adequate margin, or even beating the index, it is to provide enough data to enable trustees to understand what performance means, what has been achieved, and to portray in figures and words the style of investment managers.

This requires a sophisticated approach to performance measurement, breaking down the overall return into its component parts and analysing the returns of each part. It means analysing how the returns arose — the effect of stock and sector selection and the effect of timing of investments.

The internationalisation of investments, with fund managers now investing a substantial part of their assets overseas, even though the liabilities are still wholly in the UK, has added new dimensions to performance measurement and introduced fresh problems to those specialising in performance measurement.

The first feature in this new area is that overseas investment is a major factor in investment. Risk has always been present even when managers invested solely in the UK. But its appreciation becomes essential in overseas investment.

Not only is there the risk associated with investing in an equity or property market that

prices and values can fall and dividends and rental income be curtailed. There is the added risk of currency movements, exchange rate fluctuations, and the political risk of not being able to repatriate assets or even the ultimate loss of the assets.

So the measurement of performance ought to incorporate a risk factor in the analysis, though there are differences of opinion on how this is done.

WM Computer Services, the leading firm providing performance measurement, adopts this approach of showing the range of returns for the various investment sectors for all the funds it analyses. By looking at the range the client can assess the risk. This is accompanied by an explanation of the results which would refer to risk.

The second major feature in analysing overseas investment performance lies in the lack of suitable indices for measuring performance on a worldwide basis. The only index available is the Capital International World Index, which integrates the movement of 48 stock markets, including the UK, with respective currency changes against the U.S. dollar in producing a single index figure.

This index is used by CAPS (Combined Actuarial Performance Services) mainly because there is no other available. WM Computer Services prefers to

analyse individual funds against the aggregate, using the overall experience as an index. The fund managers themselves are making increasing use of performance measurement services. Both WM Computer Services and CAPS offer two services — one to trustees, the other to investment managers. They regard this as the ultimate independent measure of how managers are performing and it enables them to identify successes and mistakes.

But very few funds publish comprehensive performance figures in reports to members. It is usually just the overall return. One exception is Courtlands which does provide such figures, possibly because its performance is very good. But having started this practice, the fund managers will have to continue, whatever the future performance.

However, performance measurement is not confined to pension funds. Stockbrokers Wood Mackenzie have brought about a performance analysis of investment trust performance for the Association of Investment Trust Companies, which analyses the various components and performance of managers.

This makes the unit trust performance measurements based on unit prices somewhat crude. The Unit Trust Association is looking at more sophisticated methods.

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## International Fund Management 3

# Pace of overseas investment quickens

### U.S. Pension Funds

TERRY BYLAND

THE RATE of increase in the overseas investment by the U.S. pension industry has gathered pace rapidly over the past 18 months, spurred on by fundamental investment factors as well as the continuing effects of the Employee Retirement Income Securities Act (ERISA) now a decade old.

The renewed surge in the U.S. dollar during 1984, together with a wider consciousness in the U.S. financial community of investment opportunities in foreign stock markets, have obliged fund managers and trustees to widen their approach to securities investment. The original ERISA requirement for funds to "diversify" has long been supported by solid investment criteria.

The steady growth in funds looking for overseas investment has inevitably increased the number of money managers seeking a share of the business. But the newness is not finding easy to break in—the latest statistics compiled by Intersec Research, the Connecticut-based consultants on international diversification in the pension industry, indicate that the "80-20 rule" is still in place—that is to say that 20 per cent of the managers still manage 80 per cent of the

assets. Growth in overseas ERISA assets is now outstripping previous forecasts by a wide margin. At mid-year 1984, \$15bn in U.S. pension funds were invested overseas, already an increase of \$3bn since the previous year's end. Intersec expects further \$3bn to be added by the end of this year, which would indicate a rate of growth of about 51 per cent. Well before the end of the decade, the total is likely to rise to around \$40bn, which would make up about 4 per cent of total ERISA assets.

Moreover, individual pension funds are raising their sights for overseas investment, a trend which could change the overall picture dramatically. The average commitment of corporate funds overseas has now comfortably achieved the 5 per cent target put forward, somewhat hesitantly in the days after ERISA was born. The most recent surveys of corporate attitudes suggest that funds are now expecting to put 10 per cent of their aggregate into non-U.S. investments within three or four years.

### Traumatic times

The attraction for pension fund managers of increasing commitments overseas has been only too clear over the past 18 months, which have seen difficult and sometimes traumatic times on the U.S. markets. The majority of 80 per cent at end of 1983 of ERISA overseas assets are in equities, where the contrast between Wall Street and other world markets

has been painful on occasions. ERISA fund managers have been spared the worst misfortunes of other U.S. fund managers. Mutual funds, for example have largely underperformed against the Standard Poor's indices since the second half of last year. Only those mutual funds specialising in overseas markets have succeeded in beating the trend.

Most of the 75 U.S. institutional portfolios included in Intersec's Non-U.S. International Equity Universe managed to top the performance of the Standard Poor's 500 Stock Index in 1983, and most also beat the composite Europe, Australia, Far East (EAFE) Index.

On the other hand, ERISA funds may have missed out on the strength of the U.S. bond markets, partly because overseas investments have been heavily concentrated in equities. At end-1983, 80 per cent of ERISA overseas assets were invested in equities. The tussle for the lucrative business of managing the burgeoning overseas assets of the pension funds continues apace, and its course indicates that amateurs need not apply. A growing portion of these assets are now offered for management to international investment specialists as opposed to general managers claiming expertise in both domestic and overseas markets.

Several such appointments were made by funds turning for the first time to overseas opportunities, indicating that as more pension funds are drawn into

the net, there will be increasing need for fund managers to specialise. Of the 80 or so investment advisers competing for the overseas ERISA funds, Morgan Guaranty still leads the field, with its total of \$2.2bn of American funds managed outside the country standing at well over double those of its nearest rival. But the list of the top dozen managers shows that the UK challengers have increased their grip over the past two years.

Schroder Capital Management International, with \$600m Kleinwort Benson International Investments with \$312m, and Morgan Grenfell with \$602.2m have all significantly increased their ERISA assets.

The experience and proven track records in cross-frontier investment of the UK managers marked them as natural beneficiaries when ERISA first opened the door for U.S. pension funds to place assets outside the U.S. The strong gains recorded by UK managers already in place as ERISA managers contrasts with another significant trend which disclosed itself last year.

### Lower proportion

For the first time for several years, 1983 saw managers with head offices outside the U.S. representing a slightly lower proportion of the total. As more ERISA funds are drawn into overseas investment, it is clear that an office in the U.S. is becoming an increasing advantage.

But also significant is the growth in joint-venture management, which rose from eight to 10 last year. The increasing costs involved in establishing a credible presence in this highly competitive marketplace suggest that joint ventures will continue to increase. Managers able to offer the stock market expertise are often unable to provide the mundane banking managers.

services for moving money around the world, collecting dividends, and so like, which are often of primary importance to the fund trustee.

Inability to provide the visible funds on the due date is discouraging for the fund which has only just ventured abroad for the first time.

But the current totals of actively operating fund managers should not be taken entirely at their face value, since there is undoubtedly a growing list of managers seeking or actively preparing entry to the field. Many of these prospective managers are held back by their awareness of the heavy, and expensive competition for new business. Managers have to offer a significant presence in the U.S. if they are to attract the confidence of fund trustees. The six new managers appointed last year were evenly divided between those with investment functions in the U.S. and those with the same facilities overseas.

And, there is another side to the coin. Some managers have withdrawn, or decreased their presence in the business. Last year saw Robeco International Investment advisers shed the \$70m in ERISA assets formerly managed by them. There is little doubt that assets growth is in for several more years of substantial improvement, although a reversal of the dollar's strength could check the pace.

The U.S. managers, headed no doubt by Morgan Guaranty, will continue to fight hard to reduce the management share held by their non-U.S. competitors. While the cake may be a big one, the largest slices are likely to end on the plates of the most competitive and effective

# A reversal of trends

### International flows

TONY JACKSON

IN THE world of international investment flows, it goes without saying these days that the overwhelming influence is the U.S. As the soaring dollar testifies, money is pumping into America, to fill the yawning gap of the Federal budget deficit and to take advantage of the high interest rates of which the deficit is at least partly the cause.

However, as the U.S. Treasury statistics make clear, portfolio investment is at present a declining part of the inflow. In the first half of this year, foreign purchases of Treasury bonds and notes totalled a net \$3.9bn—a far cry from the full-year figure of \$17.3bn in 1982; and in June, foreigners sold a net \$4bn.

### More pronounced

On the U.S. equity side, the decline is a good deal more pronounced. In 1983, foreign purchases accounted for a net \$5.4bn; but in the first half of this year, the figure was a mere \$78m, with the last two months of the period producing net sales of \$0.5bn.

On this side of the Atlantic, it is clear that UK investors are beginning to fight shy not only of the U.S. but of overseas investment in general. Since the removal of exchange controls in 1979, the UK institutions had

been making up for lost time in grand style, with investment in overseas equities exceeding UK equity investment in each of the years 1981-83. Logically, however, there had to be limits to this, if only in terms of matching assets and liabilities in the same currency.

Recent figures to mid-1984 show a remarkable reversal. Since the last quarter of 1982—the time of a rampant bull market on Wall Street—overseas investment by UK institutions had shown a gradual decline, as funds had approached their targets for overseas exposure. But in the second quarter of this year, there was for the first time a net sale of overseas equities, to the tune of £738m.

The trend in foreign bond investment has been less marked, if only because the UK institutions, with a lengthy experience of investing in the U.S., have always tended to look to the higher returns available through skilled stock-picking in the U.S. equity market. In 1983, UK institutional investment in foreign bonds totalled a mere £0.5bn, against an equity total of £2.7bn. Even so, there has been a tailing off of late; in the first quarter of this year, investment in foreign government bonds was £200m, falling to £80m in the second quarter.

In the world's second largest equity market, Japan, the recent trend of the inflow of foreign money has been highly volatile. In 1982, foreign purchases of Japanese equities totalled a net \$1.6bn, and in 1983 \$4.1bn. But in the first quarter of this year, there were net sales of foreigners of \$0.5bn, and in the second quarter further massive

sales of \$4.8bn. But the latest reported month—August—showed a recovery, with purchases totalling net \$333m.

On the fixed interest side, the trend has been steadier. Against a total \$4.9bn of overseas purchases of Japanese bonds in 1982, the 1983 figure was \$2.1bn. But recovery is already evident in the current year, with the halfway total at \$2.2bn and the trend apparently continuing upwards.

As to overseas investment from Japan, the picture in equities has been similarly mixed. In 1982, Japanese investors put a net \$1.51m into foreign equities; in 1983, \$626m. But in the first half of this year, the total has been a mere \$12m net, and in August there was hefty net-selling of \$122m.

### Level best

As to bonds, though, it looks as if Japanese investors have been doing their level best to plug the U.S. budget deficit.

The trend here is remarkably consistent. In 1982, net purchases of foreign bonds by Japanese investors came to \$6.1bn, and in 1983 \$12.5bn. In the first half of this year alone, the total was a formidable \$9.2bn, with a further \$2.4bn in August.

According to the Nomura Research Institute in London, a good 50 per cent of that buying will have gone into U.S. Treasury bonds. In the UK, most investors stick doggedly to the view that the dollar is heading for collapse, or at least significant weakness. It would appear that from Tokyo the view looks different.

# The round the clock future

### New markets

MAGGIE URRY

THE SUN never sets on trading in financial futures and options. Originally a U.S. development, interests in futures and options have been set up around the world, with the Far East time zone gap now being plugged.

While options are an old idea, the principle of trading options is newer, and financial futures only date from the early 1970s. Traded options markets opened in Europe in the late 1970s and 1982 saw the beginning of financial futures trading in London.

In September this year the Singapore financial futures market opened its doors, while New Zealand begins financial futures trading this month and Hong Kong's market is expected to open in January, starting trading a contract based on the Hang Seng index. Now the Japanese are seriously considering the establishment of a bond futures market. Finance Minister Noboru Takeshita believes that such a market would facilitate the large refunding of bond issues which starts next year.

The whole rationale of futures and options trading is the management of risk. By using these markets fund managers can reduce or, if desired, increase their exposure to risks of exchange rate movements, interest rate changes and stock market volatility. Futures and options contracts around the world cover a huge variety of currencies, long and short interest rates and both whole stock markets and individual shares. That enables portfolio managers to hedge their risks on

bond, and equity portfolios both domestic and international. A simple example of this is that a UK fund manager who expects the equity market to fall, say, 10 per cent but who does not want the trouble and expense of selling shares only to buy them back.

Since the London International Financial Futures Exchange and the Stock Exchange began trading futures and options contracts based on the FTSE 100 index in May this year, such a portfolio manager has been able to avoid that 10 per cent loss.

In the futures market he could sell (go short of) contracts, and when the equity market had fallen as he expected, he could buy them back at a lower price, so making a profit in the futures market to offset the loss on his equity portfolio. If he was wrong about the market's fall, he would lose money in the futures market, while making a profit on his shares.

Using the traded options market puts a limit on the risk the fund manager takes. If the futures market he could see less mounting if the market moves against him. In options his loss is limited to the original cost of the option.

The same fund manager expecting the equity market to fall could buy a put option, giving him the right to sell the index at a certain level. As the market falls below that level, the put option's value will rise and the fund manager can sell the option and take the profit. If he is wrong and the market rises then the option will become worthless and he will lose the original purchase price.

Strategies for using the futures and options markets have become much more complex than these basic examples

though. The markets can be used to isolate part of a risk. For instance, the UK portfolio manager might want to buy U.S. equities but is worried that any capital gain there, could be wiped out by a loss if the dollar falls.

By hedging the exchange rate risk through either the futures or options markets he can avoid that part of the risk while keeping the exchange movements in the U.S. equity market. Foreign currency options are growing rapidly in the U.S. and Life may decide to start them in London to replace its exchange rate futures contracts.

Fund managers in the U.S. have become experienced at using these markets and many now consider them a vital part of portfolio management. They have discovered that correct use of these markets can improve their performance, and in the highly competitive world of fund management, that is important.

The concepts are newer in the UK though, and so far fund managers have been slow to get involved in what many still regard as speculation.

In a recent speech, Mr George Dennis, of the £7bn Fund pension fund, said that fund managers should make more use of the markets. He pointed out that the Life's gilt contract was particularly useful, providing a cheaper way into gilt-edged stocks than through the usual markets.

While education of fund managers should increase the use of the markets in London, there are also legal problems. Many fund managers are working under Trust deeds written before such new-fangled markets were dreamt of, and which must be changed before funds can be invested in futures and options.

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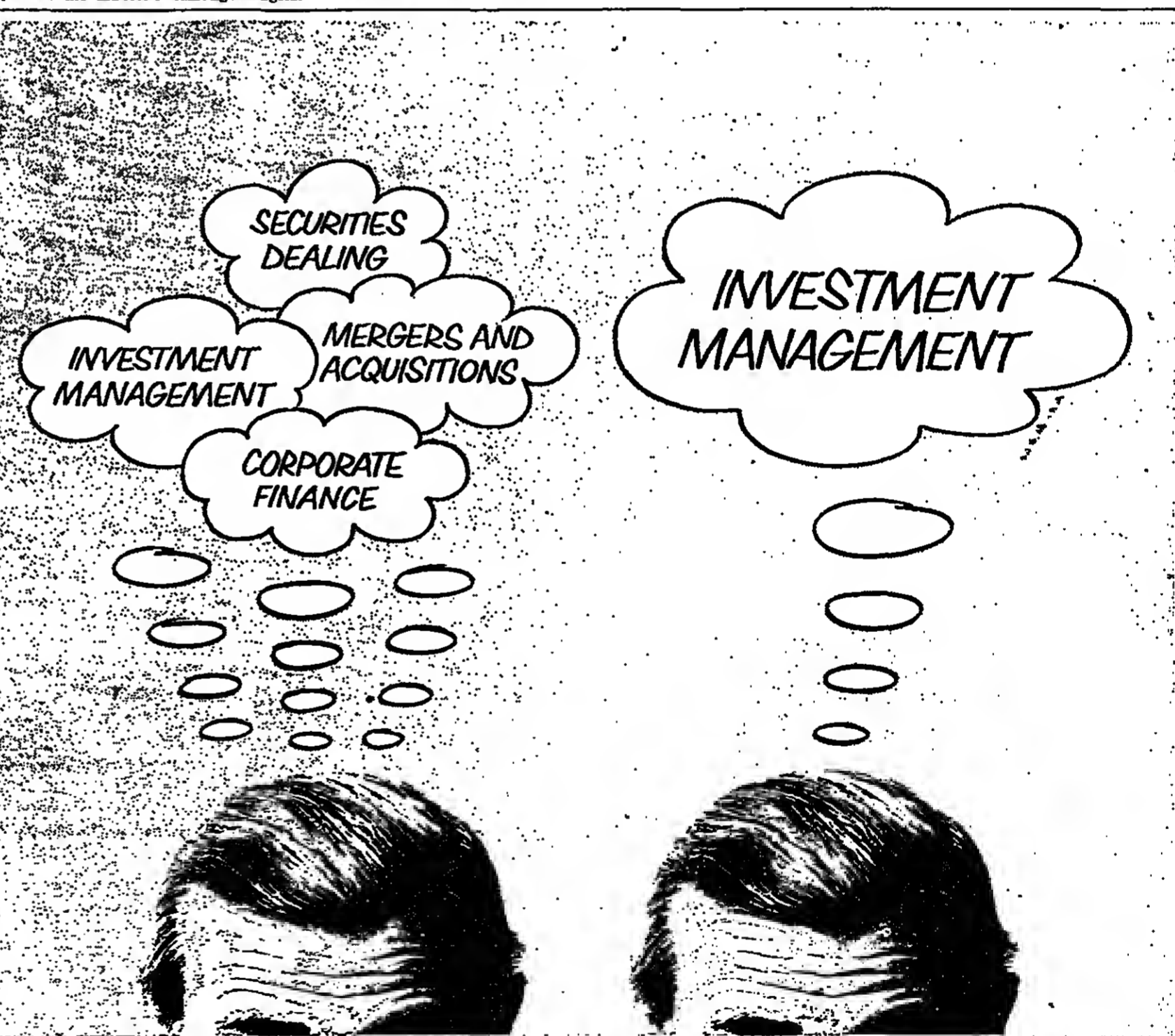
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**Fidelity**  
INTERNATIONAL



# International Fund Management 4

## MERGERS AND ALLIANCES OF SECURITIES HOUSES

Purchaser	Date	Deal	Purchaser	Date	Deal
Security Pacific Bank	June 1982 July 1984 April 1984	Hoare Govett 29.9 per cent £8.1m Security Pacific indicates that it will raise stake to 80-90 per cent valuing Hoare at £78m Charles Pulley 5 per cent	Skandia	April 1984	Quilter Goodison—29.9 per cent*
RIT and Northern (Charterhouse J. Rothschild)	November 1982 November 1983 April 1984 June 1984	Klcat and Aitken 29.9 per cent £0.5m* Charterhouse Group (merger) Hambro Life 24.9 per cent—£126m* Joint venture with Nikko Securities†	Glaniness Mahon	April 1984	White and Cheeseman—29.9 per cent†
Citicorp	November 1983 September 1984	Vickers da Costa 29.9 per cent plus 80 per cent of Far Eastern operations—£20m* Merged Vickers da Costa and Scrimgeour Kemp Gee—29.9 per cent*	Banque Bruxelles Lambert and Pargesa	May 1984	Harry Amsbacher—29.9 per cent†
Mercury Securities (S. G. Warburg)	November 1983 August 1984	Akroyd and Smithers 29.9 per cent—£41m† Rowe and Pitman Mullens*	Refuge Assurance	May 1984	Leopold Joseph—29.9 per cent†
Yorkshire and Lancashire Investment Trust	November 1983	Wishart and Brodie 10 per cent*	Baring Brothers	May 1984	Henderson Crosthwaite (Far East) approximately 75 per cent*
N. M. Rothschild	December 1983	Smith Bros 29.9 per cent—£6.5m†	Exco International	May 1984	Galloway and Pearson 29.9 per cent*
Charter Consolidated	January 1984	Rowe and Pitman 29.9 per cent for £16.2m*	Gravitt and Co	June 1984	R. A. Coleman 29.9 per cent*
National Westminster Bank	February 1984	Bisgood Bishop 29.9 per cent. Deal values Bisgood at £13.6m† Fielding, Newson-Smith—29.9 per cent*	Will Sammel	June 1984	Wood Mackenzie 29.9 per cent valuing Wood Mackenzie at £20m*
Mercantile House	February 1984 May 1984	Alexanders Discount £29m† Leing and Cruickshank 29.9 per cent £7.5m* and Jessel, Toyne and Gillett estimated £21m†	Kleinwort Benson	June 1984	Grieverson Grant—5 per cent. Deal values Grieverson at £44m* and Charlesworth and Co—29.9 per cent. The jobber is valued at £800,000†
Barclays Bank	March 1984	de Zoete and Bevan—5 per cent* and Wedd Duracher Mordant—29.9 per cent at £30m†	Sbeerson Lehman-American Express	July 1984	L. Messel—5 per cent*
Samuel Montagu Hambros	March 1984	W. Greenwell—29.9 per cent*	Grindlays Holdings (part of Australia and NZ Bank Gp)	July 1984	Capel-Cure Myers—29.9 per cent*
Britannia Arrow	April 1984	Strauss Turnbill—29.9 per cent*	Lancashire and Yorkshire Investment Company	August 1984	Battye, Wimpenny and Dawson—25 per cent with an option to increase to 29.9 per cent*
Morgan Grenfell	April 1984 May 1984 October 1984	Singer and Friedlander 87.5 per cent—£52m† Pinchin Denny—29.9 per cent† Target Group 19.9 per cent £10.4m† Pember and Boyle—5 per cent*	Hongkong Bank	August 1984 October 1984	James Capel—29.9 per cent* James Capel forms joint company with Gerrard and National to make markets in British Government securities†
Deutsche Bank	November 1984	4.99 per cent stake in Morgan Grenfell—£14m†	Dow Scandia	September 1984	Savory Millin—29.9 per cent*
Scott Giff Hancock	April 1984	R. Layton (merger)*	Union Bank of Switzerland	November 1984	Phillips and Drew—29.9 per cent*

Key: \* Stockbrokers; † Discount jobbers; ‡ Discount houses, merchant banks and others.

OTHER ARRANGEMENTS

July 1984  
Prudential Bache Securities of the U.S. holds 29.9 per cent in PB Securities, Down de Boer and Duckett, a UK stockbroker it formed itself the previous December and which started trading at the end of July.

August 1984  
Schroders holds 29.9 per cent in Helbert Wagg and Co. Anderson Bryce Villiers, a firm which it forms around three former members of Panmure Gordon.

Source: Leing and Cruickshank; Financial Times.

## Taking the risk in search for rich rewards

### Venture capital

TERRY GARRETT

Venture capital has become one of the buzz phrases of the financial community in the last few years. Where there were just a handful of financial institutions specialising in risk investment for young growing companies in the late seventies, today there are around 100 sources of capital for the entrepreneur.

But it is still a problem to define venture capital. Unfortunately, the phrase seems to mean all things to all men and has become so widely used as to cover virtually every equity investment other than a public offering of shares.

Americans, who often claim to have nurtured the whole venture capital concept from its embryonic stage, generally argue that any investment made at any stage in a company's development prior to a public listing could qualify as venture capital. The criteria is not when the investment is made but whether or not the ultimate ambition is capital growth—that and the amount of involvement by the investor. The American concept favours a close involvement on the part of the investor in the general running of the business.

In the UK, venture capital has been used to describe an equally wide range of investments from management buy-outs to pure start-up situations. The main difference between the UK and U.S. is that the British venture capitalists tend to be offshoots of institutions or

banks with a more distant "hands off" approach, leaving the directors to run their own companies.

In theory, the American purists would claim, a venture capitalist should be able to provide a company with a great deal more than a simple cash investment backed with a non-executive board member turning up a dozen times a year. The investor should have a depth of knowledge at his disposal to become closely involved in the day to day running of the business. This may, of course, mean changing the investor's representative at the company through its various stages of development.

In the UK a surprising number of venture capitalists claim to adopt a "hand-on" approach. But in reality the number that could live up to the American description is probably very limited. Possibly the seeds of failure are already being planted by the rather passive involvement of British investors. But unlike the U.S., the British market is yet to experience any great shake-out in venture investments and euphoria still abounds. Caution it may seem, but few failures many encourage a closer involvement with future investments.

And failures there will most certainly be. True venture capital investment must logically relate to young companies or start-ups, no matter what some investors are arguing. In those circumstances some failures are inevitable. ICFI has more experience than anyone in the country and according to Miss Sue Palmer, a manager at 31's south London headquarters, history shows a failure rate of one in every

three start-ups it backs despite close monitoring.

Undoubtedly some of the recent entrants into the venture capital game are hoping for a better survival rate than that, but to achieve it they may have to concentrate on development capital rather than riskier venture capital.

Nevertheless for the present the venture capital industry (taking a fairly loose definition) is booming. Exactly why this should be is not obvious though a number of features are clear. The attitude of Government towards developing businesses has been a spur and the Business Expansion Scheme has played its part, though there are as many venture capital funds outside of the

BES umbrella as under it. Also the rapid expansion of high-tech companies, which have shot up almost overnight, is encouraging investors to participate in the "sunrise" industries. There is also a greater awareness among the latest generation of entrepreneurs that they have to give away some equity to raise money.

Finally the advent of the Unlisted Securities Market and the myriad of over-the-counter markets established by licensed dealers has given investors an easy exit route from a successful company in a few years time. That is perhaps the most important point of all—for institutions the ultimate reward of venture capital is to cash in on some healthy capital profits.

## Shake-up of the securities markets

THE pressure for radical change within the UK financial community in the past year or so has proved irresistible. Virtually all the large stockbrokers have formed links with interests outside the stockmarket, while other financial conglomerates are developing rapidly.

The unprecedented upheaval in London's securities markets have been caused by a number of factors. The abolition of exchange controls in 1979 led to an enormous growth in portfolio investment overseas.

Over the past two years more institutional money has been invested overseas—£16.5bn—in the UK equity market—£9.5bn. UK institutional investors have become more sophisticated, aware of the different ways of doing business with different dealing systems. They have become more critical of the way business is done in the UK.

U.S. investors also began to increase their involvement in UK stocks. International competition for business intensified in London and securities firms found that they were at a

disadvantage to their U.S. and other overseas rivals. The compartmentalised structure of the UK securities market, and its weak capital structure, militated against the likely success of UK securities firms in the future.

Deregulation of the London securities market in the summer of 1983 changed that. In order to survive in their potentially highly competitive domestic market and to establish a role in international trading securities firms were forced to turn to rich partners outside the walls of the London stock exchange (see table above). The Stock Exchange has steadily been relaxing its rules and the process is continuing, which in turn is forcing further change.

These changes represent London's effort to participate alongside in the global market place. Investment structures, modelled on U.S. lines, are being formed, links are being established with major firms in other financial centres such as Hong Kong and Tokyo as well as the U.S. New international dealing arrangements are being formed within existing London firms often on a joint venture basis.

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## Traps for unwary overseas investors

### Taxation

ERIC HENBREY

IT IS tiresome enough that investors have to concern themselves with taxation in their home countries, but their problems are multiplied when they decide to invest internationally.

Many decide that they do not wish to be involved with foreign taxes, and there are investment opportunities to assist that desire. Such problems are least in the Eurobond market, where the yield on investments is invariably obtained free of all taxes. First class bonds denominated in all the major currencies are available yielding gross interest free of withholding taxes.

If investors are seeking equity appreciation the Eurobond market offers a wide range of convertible bonds the income yield and capital appreciation on which is free of tax. Furthermore, bearer bonds are the norm and provide the anonymity that is often so precious to investors.

Withholding tax on interest and dividends is the most common tax hazard for international investors. The theory of withholding tax is that the foreign investor, deriving income from within a country, should suffer a measure of taxation by that country. In the case of interest the theory does not work in practice.

Fiscal authorities in countries needing imported capital seem slow to recognise that withholding tax is a burden that tends to fall upon the borrower, because foreign lenders insist upon receiving their interest gross. Escape valves are necessary, so in the UK Government funding is facilitated by the Treasury's power to designate Government Stocks as tax free to non-residents.

The Eurobond market has provided an escape valve for corporate borrowers in the UK, U.S., and elsewhere by per-

mitting them to borrow externally through financing subsidiaries in countries, like the Netherlands, which impose no interest withholding tax. It is interesting that currently the UK, U.S. and most recently France and West Germany are recognising this and repealing, at least to some extent, their interest withholding taxes.

It is unfortunate that such progressive initiatives are so often undermined by the tax administrators, persuading the

any basis the Inland Revenue may seek to charge the investment manager to income tax, as agent for the investor, on the interest from the UK issued bonds.

This is one of a number of points on which a change of law has been long sought so that foreign investors can come to London for investment management confident that they do not risk exposure to UK tax as a result.

International investors seek-

duty in the UK, although with forethought they may be avoidable, e.g. by purchasing UK equities in New York in the form of American Depositary Receipts.

International investment is not confined to bonds and equities. Much foreign investment has been made in real estate, oil and gas properties, particularly in the U.S. This is despite the fact that since 1980 foreign investors in U.S. real estate, which includes

elsewhere. Apart from these and other specialist commodity, venture capital etc. funds, there is a conventional investment in bonds and equities. UK management groups are prominent in this.

Apart from a wide choice of domestic investment and unit trusts, they offer an equally wide choice of open-ended funds established offshore which are free of corporation tax and so attractive to foreign as well as UK investors.

It is unfortunate for UK investors that these offshore funds can be caught by the recent roll-up fund legislation for some technical reason, for example too large a single investment, even when they distribute all their income. This overlooks the penal consequences that capital appreciation can become income taxable to UK investors.

Legislation against offshore funds such as that in the UK sometimes appears discriminatory against the small investor who invests collectively. It may even represent a subtle form of exchange control, the investment currency premium being a thing of the past. However it shows little sign of reducing the number of new offshore funds competing for investors' attention.

Dealing with tax on home-based investments proves tiresome enough for many fund managers but the problems multiply when a portfolio is spread internationally

legislators that complete freedom will lead to massive evasion by home nationals.

The ultimate example of this administrative sabotage has just occurred in the U.S. where the Internal Revenue Service have ruled retrospectively that some 10 important Eurobond issues launched on a tax-free basis are in fact subject to withholding, a ruling hardly likely to inspire confidence in future issues.

The recent change in the UK provides a trap for the unwary foreign investor in the Eurobonds issued by UK parent companies (the issues by Hawker Siddeley and Rowntree Macintosh are the first examples). Although the bond interest may be paid free of withholding tax, it remains theoretically subject to UK income tax by direct assessment.

In most cases the Inland Revenue does not seek to assess. However if it identifies somebody in the UK managing the foreign investor's bond portfolio on a fully discretion-

ing capital appreciation have been chargeable to U.S. capital gains taxes.

Few investors have the means to invest individually in real estate and several investment funds have been launched. They have taken a variety of forms—unauthorised unit trusts for UK pension funds, limited partnerships, for investors in West Germany particularly, and tax haven companies for international investors generally.

Tax looms large in the structuring of these funds—in order for example to minimise U.S. income and withholding taxes on the rental flow generated from real estate investment. This is an area where the international investor and his tax planner are currently under siege particularly by the United States Revenue.

Much real estate and oil investment has flowed through the Netherlands and/or the Netherlands Antilles because of their favourable double taxation treaties with the U.S. The U.S. is seeking to renegotiate those treaties in an effort to prevent their use by investors resident

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This article has not ventured into what may be the first pre-occupation of the international investor—what will be left of the return on his investment when his home tax has taken its share? The exempt institutional investor has no worries on this score, although he will regret that his exempt status extends only rarely to overseas tax.

For others the potential benefits from overseas investment, be they the conventionally financial or the achievement of greater security, must justify the depredations not only of their own tax but of those overseas who wish to take the first bite.

Eric J. Henbrey is a director of J. Henry Schroder Wagg and Co.

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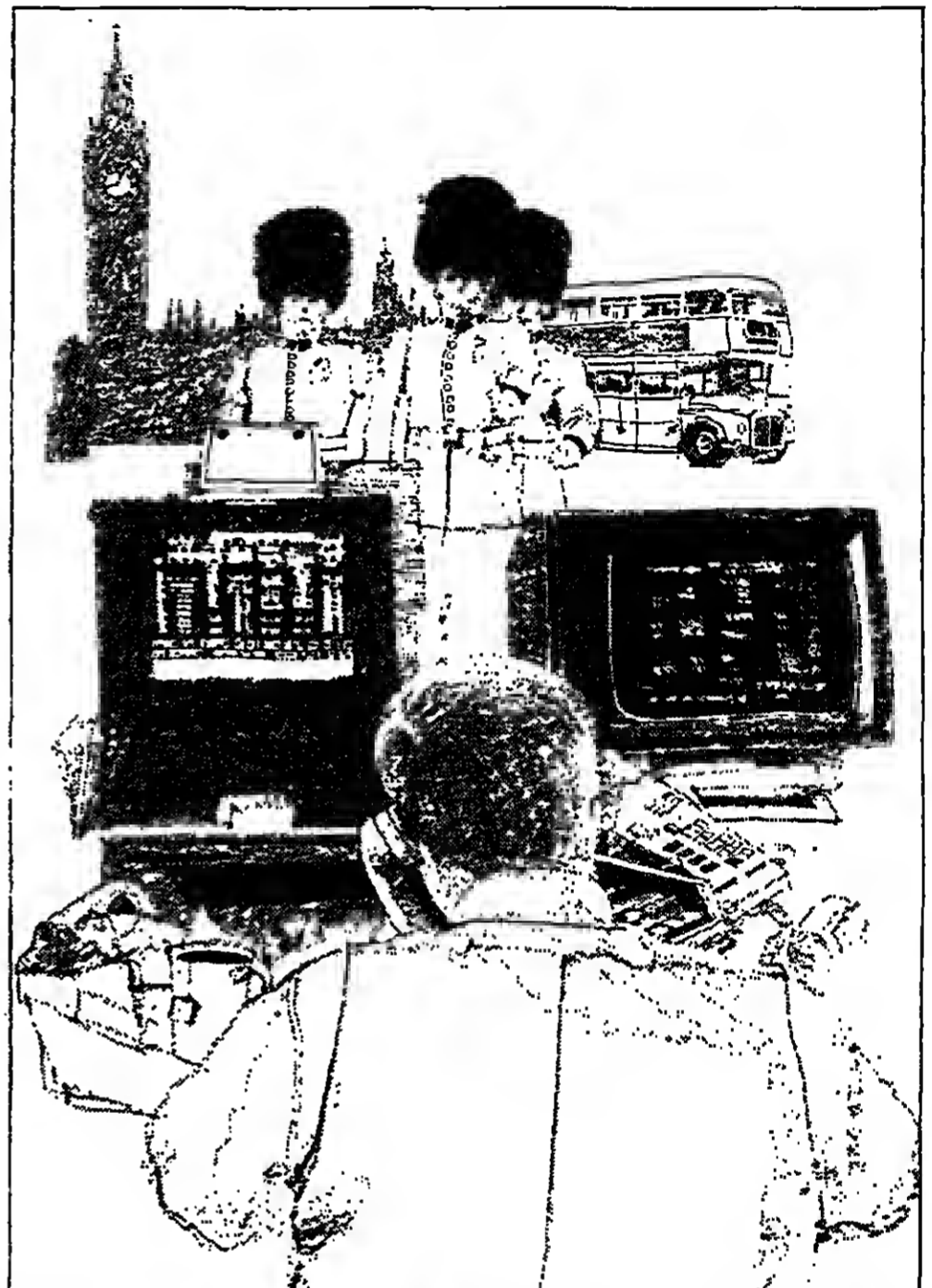




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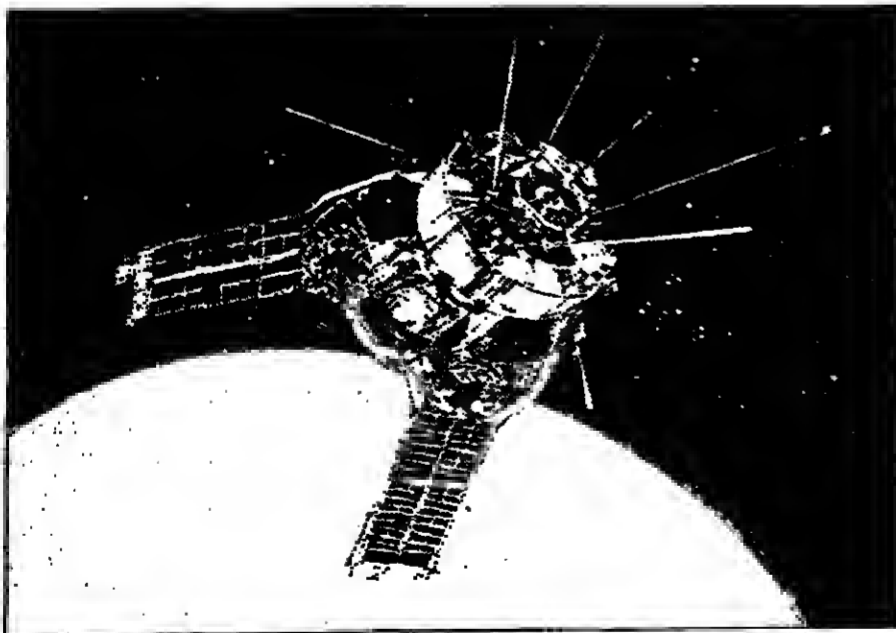
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# International Fund Management 6

## Hedging against dollar element of portfolio comes to fore

Currencies  
JEREMY STONE

SINCE the great bull market in dollars started late in 1980, the rewards of investing in U.S. instruments have been obvious to the most insular of fund-managers. Even if there had been nothing to go for on Wall Street, the total return on U.S. securities to a UK fund would always have seemed respectable—simply because the currency gain was racking up at a compound rate of nearly 20 per cent. On the other side of this coin, however, is an increasingly obvious currency risk: as the dollar rose, so did the proportion of institutional cash flow that was being exposed to the U.S. markets.

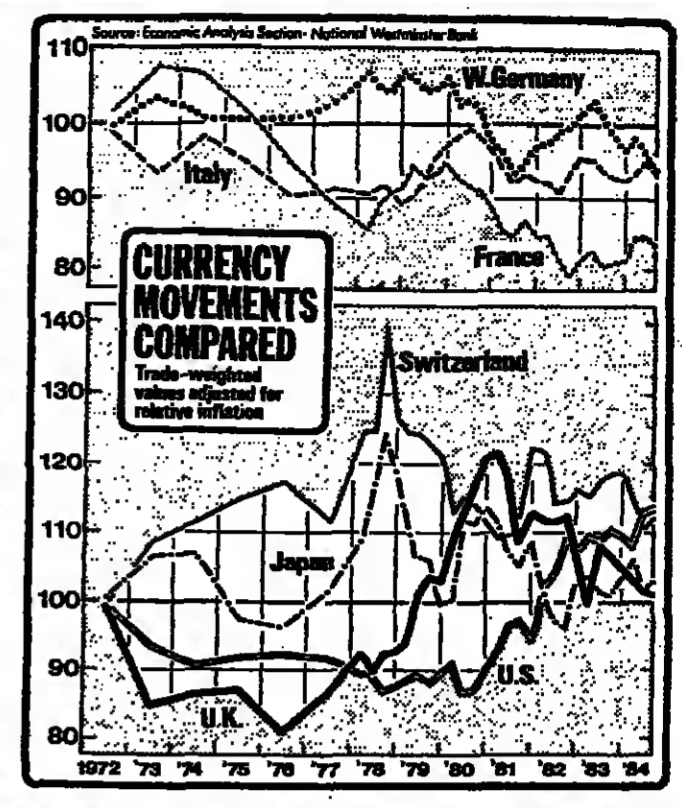
By now, after a doubling of the dollar's sterling value, it is only reasonable for funds to think about protecting their U.S. portfolios against a long-awaited crack in the dollar's upward trend.

The high level of U.S. interest rates—another important part of the American total-return package—is more than anything a reflection of the Federal demand for deficit finance. But it must also be registering the risk premium that international capital requires for holding dollars.

The point of disentangling the underlying market risk of a portfolio from the currency risk became more evident with every surge in the dollar—and with each bout of central bank intervention, aimed at curbing its progress. Exchange risk used to be a luxury—in the days when all investment was meant to be financed by back-to-back loans or pool dollars. After the abolition of exchange controls currency exposure was practically *de rigueur*; now, for all but the most cavalier of asset managers, it has started to be thought of as a voluntary thrill.

That is perhaps the best way to read news of a surprising recent reversal in the direction of UK institutional investment, when it seems that the regular outflow of recent years was—replaced by an influx of \$0.75bn. It is possible that funds had taken a prescient look for signs of tiredness in the U.S. economy, deciding that the time had come to lighten their holdings of Wall Street equities.

A plausible background reason for doing this might be the feeling that UK institutions had at long last overshot their target weighting in the U.S. If so, one heavy factor in the assessment would be currency, inflating the sterling book value of averagely successful investment; that might well come ahead of any shift to a bearish



securities markets without increasing their dollar exposure, except at the margin.

A neat trick suggested by brokers James Capel is to buy options on the underlying instrument—say Treasury

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## Diversification

CLIVE WOLMAN

AN OUTSIDE observer of UK pension fund cash flows might wonder what the theoretical significance was behind a 15 per cent weighting in overseas equities.

After the removal of exchange controls in October 1979, UK pension funds started investing slightly over 20 per cent of their cash flow in overseas equities—until the beginning of this year. Then the outflow of funds came to an abrupt halt—in fact there has been a small net repatriation of funds since then.

The movements over the past five years have left private-sector pension funds with about 15 per cent of their portfolios in overseas equities. The public-sector funds that account for nearly one-third of the total have a slightly lower proportion, around 12 per cent.

By international standards, this figure is fairly high, at least for a large economy. U.S. pension funds have only 2 per cent of their assets abroad although the figures has been increasing rapidly since 1980. The Japanese pension fund figure is

even lower. Statistics collated by Mrs Evi Kaplanis of the London Business School indicate that the closest comparable figures are, for West Germany 12 per cent, Italy 7 per cent, Switzerland 35 per cent, Netherlands 41 per cent, and Belgium 24 per cent.

In the UK, at least, the justification for investment abroad has been searched mainly in terms of risk diversification. This was the thrust of the case brought against the National Union of Mineworkers by the National Coal Board trustees of the miners' pension scheme, which was accepted by the High Court in April.

The other justification for overseas investment—that it is possible to achieve super-normal returns by spotting undervalued foreign equities—has some theoretical basis. Because of institutional and legal barriers there is not yet a sufficiently free flow of capital around the globe to ensure that national stock markets are efficiently priced, one relative to the other.

However, the costs of collecting information, transmitting funds and dealing overseas reduce the optimum proportion payable on most overseas dividends. This is less of a drawback for insurance companies than for pension funds which can receive UK dividends tax-free.

But perhaps the most important objection is that, in the absence of a free flow of funds out of other countries, particularly the U.S., such a high outflow of capital from the UK would leave the UK market under-valued and UK companies short of capital. This,

Profile: Edinburgh Inv. Trust By Barry Riley

## Profiting from a specialist stance

FOR A hundred years, Scottish investment trusts have been notable international investors. By the standards of the big pension funds and mutual fund groups they are often quite modest in size but this does not discourage them from taking a global view.

A case in point is the Edinburgh Investment Trust, a Charlotte Square trust which has a portfolio of around \$450m. Some 40 per cent of this is invested in the U.S., other 40 per cent in the UK and the rest in other overseas markets—with the emphasis on Japan where the trust's exposure is being steadily built up.

With only 10 investment managers, EIT has to use its limited resources carefully—although some extra revenues have been generated by the setting up, a few years ago of a subsidiary fund management company called Edinburgh Investment Management which looks after several pension funds and unit trusts plus some private clients. This takes the total of money under management to around \$600m and finances extra research and management capabilities.

According to Mr Alan Kemp, an executive of the trust and a North American specialist, the modest size has its advantages. "We find the small group concept attractive," he says. "We can maintain contact with each other."

The basic philosophy is to take decent sized holdings in growth-oriented companies. At present there are 275 different holdings, a figure which is likely to decline.

Mr Kemp complains that trends in the securities industry are not proving helpful, however, especially in the U.S. "The availability of research on smaller companies is much less than it used to be," he suggests. EIT's managers therefore have to keep in close touch with the companies on a regular basis.

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## International Fund Management 7

# A year of mixed blessings

### Bonds

DUNCAN CAMPBELL-SMITH

BY THE time international fund managers sat down to review the prospects for 1984, most of them were already more than a little tired of two of the longest running forecasts in the international capital markets for many a year.

One said the dollar had to collapse, and probably quite soon. The other said a great things were around the corner for the advocates of U.S. withholding tax reform and for investors likely, as a result, to prosper from much more freedom of choice between domestic and international dollar bonds.

Both forecasts had been around a few years and both were treated accordingly—with plenty of lip service, that is to say, but little of the genuine respect which manifests itself in practical investment decisions. Instead, fund managers hushed themselves with the infinite mysteries of monetary economics and predictions of interest rate movements.

As the year has unfolded, this approach has proved a mixed blessing.

It has at least proved well-founded as far as the dollar saga is concerned. Time spent worrying about the much predicted collapse of the dollar would have been time wasted this year, but then—as always—this could be about to change.

Every single fund manager coming into work these days looks first at his foreign exchange screen," says Alan Brown, head of fixed interest securities at American Express Asset Management, "and he wonders if today is not the day to hedge his dollars."

As this suggests, many—probably most—international fund managers have been content to hedge only a small part of their total currency exposure through 1984. In particular, a wide spread conviction that the dollar's strength contradicted any fundamental analysis of the currency's situation was off-set

by the confidence of most managers that the dollar would at least be safe until the Presidential election on November 6. And so it proved.

Hedging against a portfolio's foreign exchange risk can also involve unwelcome additional paperwork. Covering, say, the dollar risk on a five year bond, a sterling-based manager might arrange a sale of dollars in the forward exchange market to coincide with the maturity of the bond.

But when the forward sale data arrives, a cash transaction will be involved. If the dollar bond has been sold in the meantime, other steps will have to be taken to ensure the delivery requirement can be met—normally involving a matching forward contract to buy the required dollars.

An increasingly preferred hedging tool has been the traded currency option. Principally traded in Philadelphia but also in London, currency options need not lead to any cash transaction.

### Compensation

The fund manager with the dollar bond might acquire an option to sell dollars in six months' time at today's exchange rate. If the dollar weakens, the sterling value of the bond will fall but the price of the option will rise in compensation and can be sold in the options market. If the dollar strengthens, the option might well become worthless; but the increased sterling value of the bond should more than balance the modest loss on the option.

This asymmetrical feature of the option—with its limited downside risk but open-ended potential for capital gain—largely explains its fast growing popularity among fund managers. The same is true of another fashionable phenomenon in the international bond markets, the warrant.

This is a security entitling the owner to subscribe at a pre-arranged price and exchange rate for a certain bond at some future date. Warrants are normally being issued attached to a straightforward bond, though they then trade separately in the after-market.

Interest in warrants has grown very significantly during 1984, even attracting some investors from time to time as the secondary market becomes over-heated. But the attraction is clear enough: warrants have allowed fund managers to look forward to enjoying the benefits of any sustained bull market in dollar bonds, while at the same time allowing them to limit their exposure to that long, feared collapse in the dollar.

Few warrants have yet reached their first exercise date. There is still plenty of time for fund managers to show a rather less indulgent attitude to the use made of them by the market's new issue managers, if market deterioration in trading conditions should wipe out the value of many existing warrants; but to date, anyway, warrants have certainly helped the managers to attract interest in their new issues.

"We see these bells and whistles coming along whenever there are a lot of borrowers wanting to tap the market and they want to have something extra," says Nigel Hurst-Brown, of merchant bankers Hill Samuel. "But I welcome that—investment is not an exact science and if people are offering ways and means for you to hedge your bets in a constructive fashion, that has to make sense."

One way or another, then, most fund managers appear to have accustomed themselves to the dollar dilemma reasonably successfully. Other market stories this year, though, have caught them on the wrong foot rather more often.

Most basically, the direction of interest rates has been harder to track consistently in 1984 than for a few years past. The surge in dollar yields in the first half left a good many portfolios badly shaken.

Managers who then switched defensively out of long-term bonds into short-term paper found themselves stranded on the sidelines of a dramatic rally in long-term rates in the third quarter. And it was a rare manager who ducked the first half storms, yet returned to the market with a big enough commit-

ment to enjoy what followed.

This autumn's rally saw many an avalanche of leading corporate names from the U.S., offering historically high real yields in some continental currencies as well as in dollars. Real yields of about 5 1/2 per cent in D-mark bonds, for example, have offered fund managers a good 2 per cent more than has been usual in the past.

Other sectors, too, have seen a flurry of activity in recent months: the 10 per cent rise in Tokyo share prices between early July and last August prompted strong demand for Japanese convertible bonds—in continental currencies as well as dollars.

### Perennial issue

Finally, this was the year that confounded all those Doughty Thomases amongst the fund managers on the perennial issues of withholding taxes. Washington's tax reform bill in July at last swept aside the withholding tax barrier to international investment in the domestic U.S. bond market.

The accompanying Internal Revenue Service rules which followed a month later have raised questions in the minds of some managers about the practical accessibility of the domestic market. The required declarations of beneficial ownership—to be made ahead of each dividend coupon submission—may deter a few and will clearly involve the rest in additional administrative work. But most believe this will be a small price to pay for having the option to deal in a dollar market substantially larger and more liquid than the Eurobond arena.

Parallel tax reforms have at the same time opened other, Continental markets. As in the U.S., France has moved to scrap its 25 per cent withholding tax but has only granted the exemption to new issues. West Germany in October announced the bolder intention of abolishing the tax on all domestic D-mark issues, past, present and future. This, indeed, could still prove one of the most significant legacies from an eventful year.

## U.S. still tops shopping list

### Property

WILLIAM DAWKINS

THE dollar's steep rise has done little to knock North American property from the top of most international fund managers' shopping lists.

Far from inhibiting the flow of institutional funds into U.S. real estate, it has contributed to some impressive increases in capital values for existing investors. Admittedly, new investors have become more cautious about entering the U.S. independently. They are turning in increasing numbers to pooled funds like the North American Property Unit Trust, the American Property Unit Trust, and Grosvenor Estate's West Coast Freeholds.

There are no centrally gathered figures, but Graham Bond of Richard Ellis's New York office guesses that UK institutions spent more than \$1bn on U.S. property last year, as against \$700m in the preceding 12 months. Investment patterns have not changed as much as one might consider, relative to the ups and downs of the exchange rate," he says.

Investors' appetites are chiefly for regional shopping centres or prime multi-tenanted office buildings in major cities like New York, Boston, Washington, San Francisco and Los Angeles, currently on offer for between \$10m and \$80m—sums of a size to make pooled invest-

ments essential for all but the largest funds.

Few U.S. investors have been tempted by sterling's weakness to pick up British property on the cheap. With a U.S. shopping centre yielding up to 9 per cent annually, as against just 3 1/2 per cent for a comparable British development, it is not surprising that U.S. investors want to stay at home and that UK fund managers are prepared to pay over the odds in sterling terms to get a slice of the transatlantic action.

The same message has not been lost on other European investors, especially Dutch funds like Wereldhave and Robeco and West German syndicates, who have been active buyers of U.S. property over the past year.

"The strength of the dollar has made us look harder at some investments in terms of what currencies are doing," admits Fred Reeder, director of property investments for Postel, the largest single UK investor in the sector. Postel keeps about £1,500-20 per cent of which is overseas—of its £7.75bn portfolio in property on behalf of the British Telecom and Post Office pension funds.

But Mr Reeder adds: "Currency movements are a factor on consideration, while property is a long-term investment." Postel channelled \$400m into the U.S. last year—the majority of its overseas directed cash flows—and is currently buying two offices and a shopping centre there.



Investors are turning in increasing numbers to pooled funds for investment in U.S. property

Like other funds, it has been active elsewhere in the world, but on a far smaller scale. Postel recently put up for sale its entire Continental European portfolio—with the exception of France—expected to fetch £30-£35m. "We had to make up our mind whether to put a lot more money into Europe or get out," says Mr Reeder. "Now we are concentrating on the major economies like the U.S., Japan and Australia."

Postel established itself as a trailblazer in Japanese investment recently when it completed a highly unusual deal in which it handed over part of an office block in St James to Mitsui Real Estate of Japan in return for Mitsui's share in a comparable building in Tokyo.

The parties manage one another's interests, and Reeder is now considering seriously whether to invest further in Japan.

Its most recent Australian deal was the acquisition for A\$16.6m of British Land's 24.5 per cent share in an A\$80m property trust invested in office buildings in four major cities.

The biggest pension funds and other major institutions like the leading life assurance groups prefer to invest directly in the U.S. rather than take a managed route. The National Coal Board's pension fund, a pioneer in U.S. investment, even maintains its own management teams in New York and on the West Coast of America, despite Mr Arthur Scargill's attempts to block any increases in its overseas investments.

But when it comes to investing in smaller and more complex economies, such as in Continental Europe, the situation is different, explains Mr Bob Juddery, managing director of NCB pension fund's European property branch. The board is one of the dozen members of the Pan European Property Unit Trust, which invests chiefly in Belgium, the Netherlands and Germany.

"It's really cost effectiveness that makes us take that route," says Mr Juddery. "If you want to try to research the local fiscal and other problems of each market, you would need a small army. In any case, most funds—including us—have not been investing strongly in Europe recently. The growth there is simply too sluggish."

**Which one?**

£/\$

£/DM

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FORTUNE APRIL 30 1984

RANK		COMPANY
1983	1982	
1	1	Exxon (New York)
2	2	General Motors (Detroit)
3	3	Mobil (New York)
4	5	Ford Motor (Dearborn, Mich.)
5	6	International Business Machines (Armonk, N.Y.)
6	4	Texaco (Harrison, N.Y.)
7	8	E.I. du Pont de Nemours (Wilmington, Del.)
8	10	Standard Oil (Indiana) (Chicago)
9	7	Standard Oil of California (San Francisco)
10	11	General Electric (Fairfield, Conn.)
		Gulf Oil (Pittsburgh)
		Shell (Los Angeles)

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## International Fund Management 8

# Electronics exploit markets in ever more subtle ways

## Information Services

CHARLES BATCHELOR

THE fund manager has not been the traditional target for most of the electronic information services which have grown up over the past two decades. The up-to-the-second price information they provide has been aimed mainly at the dealing rooms of the world's financial institutions.

But as the software programs developed by services such as Reuters and Teletext grow in sophistication and they move increasingly to the analysis of the information they supply

their attraction for the fund manager grows. And as the information networks move in this direction companies which have always concentrated on analysis, such as Datastream are broadening their range to include more straight-forward price information.

Reuters, Teletext and Datastream have a major role in the electronic information industry though they face a constant challenge from smaller rivals intent on cornering part of their territory.

Each of the big three has undergone changes in its ownership structure in the past two years, reflecting the large capital needs of a fast-developing industry and the glamorous ratings accorded to the sector.

Both Reuters and Teletext are expanding public listings for their stocks through their original shareholders — in

Reuters case British and Commonwealth newspaper groups and in Teletext's case, Exco, the UK money broking group — have retained large holdings. Datastream meanwhile, was acquired by the U.S. credit information group, Dun and Bradstreet.

Reuters is traditionally strong in the markets for U.S. government securities and domestic money market instruments. Prompted by moves in the U.S., Germany and France to remove withholding tax on bonds and the dismantling of foreign exchange controls in a number of countries, Teletext is expanding its international bond coverage in response to the increasingly international nature of bond trading.

Fiscal and national barriers are tumbling," says Mr Christopher Hume, its general manager in London. Teletext is now

putting together an "Investment Management Service" comprising video pages of international bond information. One page is expected to show selected rates for U.S. federal funds, U.S. Treasury Bills, Euro certificates of deposit, leading currencies against the dollar, bond yields, bonds of major corporations and "pre-market" quotes of bond issues which have yet to start official trading.

"We aim to provide a matrix which will allow dealers to price any debt obligation they hold or are interested in," says Mr Hume. "We will provide all currencies, all instruments and all maturities."

Mr David Mulhall, securities markets manager, at Reuters sees increased interest in equity markets now that inflation levels have been brought down. Reuters has moved closer to the market place than Teletext and has introduced dealing facilities for its clients through its monitor screens in currencies and — since September 3 — in bonds.

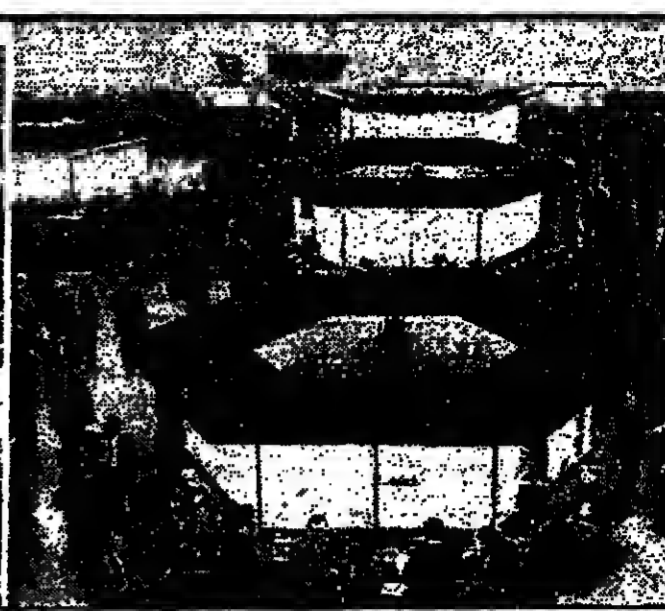
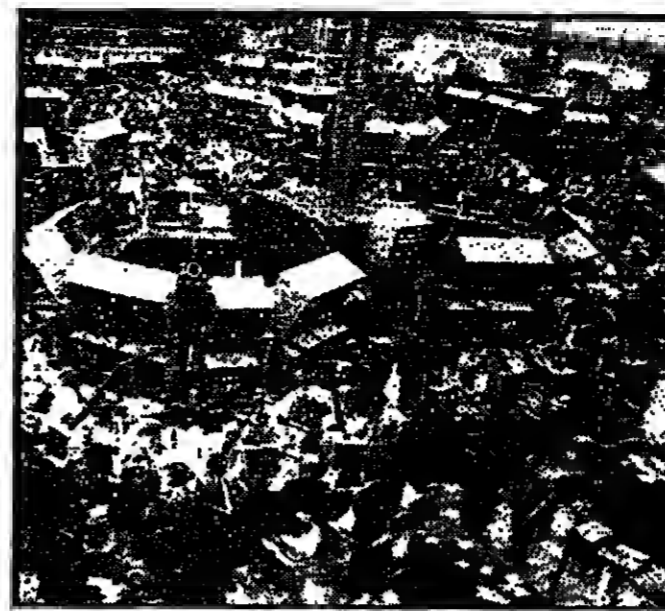
It was Reuters' decision to establish data bases for its various services — recording the information it previously erased at the end of each day — and offer graphics services to manipulate the data which brought it into an area previously dominated by Datastream. Initially Reuters has launched graphics services for spot currencies, deposit rates and bullion prices but these areas will be expanded.

### More analytical

Datastream provides the most highly developed graphics service available to brokers, jobbers, fund managers and banks and has traditionally been seen as the information service most suited for the more analytical requirements of the backroom teams of these organisations.

"On the other services you are looking for a 'deal now, deal now' opportunity," says Mr Graham Wallace, deputy marketing manager of Datastream. "Our graph programs allow clients to compare several charts on one screen. Fund managers can check the validity of brokers' recommendations." Datastream provides a wide range of graph options including line, bar and pie charts.

Its equity research service allows clients to call up information on 20,000 equities quoted on stock exchanges around the world, comparing company performance and analyse the data to reveal underlying factors of interest and long-term trends. A search facility permits clients to find stocks which meet specific requirements.



Raising capital on both Wall Street (left) and on the London Stock Exchange (right) is becoming increasingly common

## Prime area for diversification

### Equities

JOHN MAKINSON

FOR THE fund manager chasing higher returns through international diversification, equities present the greatest challenge and perhaps, the greatest opportunity.

Whereas international arbitrage rapidly eliminates price anomalies across different fixed interest and currency markets, the enterprising fund manager can still unearth equity investment — indeed whole equity markets — which look undervalued by international comparison.

So, while Wall Street, Tokyo and London remain the core of any balanced international equity portfolio, investment managers have been combing the globe for neglected opportunities. Over the past five years, Mexico, Spain, South Korea and Sweden have all come under the investment microscope.

Not all these experiments have been successful. Mexican equities proved an unmitigated disaster for the first two years since the market was opened to foreigners. Even Sweden, the world's best performing market last year, has been sagging badly in 1984.

The occasional setback has not, however, dampened the enthusiasm for international diversification. Finland is the latest market to benefit from the fund manager's attention. The Helsinki bourse rose by almost 50 per cent between June 1983 and 1984, while the Finnish Markka held almost steady against the dollar.

So far the wave of inter-

national diversification has not been tested by a genuine bear market. The dramatic surge in the dollar's value has clipped back the returns from overseas equities for U.S. investors but, even in dollar terms, the Wall Street fund manager would have done as well in the Tokyo market as in his own backyard this year. And many U.S. pension funds in particular are taking the view that the dollar must eventually succumb to the forces of economic gravity and so are locking in now to perceived currency profits.

In the most liquid and efficient equity markets, fund managers should have little difficulty in scaling down their exposure during a bear market. But there is an obvious risk that in the smaller markets, the less fleet of foot could be crushed in the rush for the exit.

### Market turned

Already, in the Swedish market, U.S. funds have encountered problems in reducing their commitments as rapidly as they would like. And a few Wall Street fund managers still recall the last wave of overseas investment, in the late 1960s, when heavy U.S. buying pushed the share price of Philips to roughly 35 times earnings. When the market turned, the Americans fled and the price collapsed.

While a worldwide bear market might have a few hunt-fingers around Wall Street, it is most unlikely that international funds will promptly retreat to their home ground at the first sign of falling prices.

In several markets, not least Tokyo, the concern that foreign investors will be disadvantaged by comparison with the local competition has some basis in fact. But, as inward portfolio investment has grown, the foreign investor has often himself to be the swing factor

Whereas the stock was attracting "hot money" in 1983, it is now being bought principally by long-term funds not least as a hedge against the damage which may be caused to the U.S. chemicals industry by a rising dollar.

Fund managers feel more confident now about diversifying their equity portfolios for a whole host of reasons. Even the traditionally insular American pension fund manager has been persuaded that diversification can limit rather than enhance long-term portfolio risk.

But, in the case of equities, investors have until recently been deterred by the strangeness of foreign markets. Unfamiliar accounting practices and a suspicion that prices are often rigged in favour of local participants have helped to keep the fund manager at home.

Those fears have to a great extent been allayed. Japanese companies, in particular, have begun to present their accounts in accordance with American standards while, even in the markets of continental Europe, disclosure has steadily improved.

Meanwhile, equity analysis has become more expert at converting foreign accounts into a form more understandable to the American investor. The international fund manager should now be able to make meaningful comparisons between, for example, GEC of the UK, GE in the U.S., Hitachi in Japan and Siemens in West Germany.

In several markets, not least Tokyo, the concern that foreign investors will be disadvantaged by comparison with the local competition has some basis in fact. But, as inward portfolio investment has grown, the foreign investor has often himself to be the swing factor

in the market. Tokyo's securities houses cannot afford to ignore, let alone abuse, the foreigner's portfolio.

Companies have themselves contributed to the awakening of interest. The "roadshow" is now a familiar sight on the investment landscape, as executives tour overseas markets to explain, and they hope attract interest in, their company.

A logical extension of this trend is the international listing. Scandinavian companies were among the first to recognise aggressive expansion.

### Pioneer

Novo Industri, the Danish pharmaceuticals group, was a pioneer in this respect, listing its shares and raising capital in London and New York to fund its international growth.

Earlier this year, Reuters managed — admittedly with some difficulty — to float itself simultaneously in London and New York, while the British Telecom offer for sale will be vigorously marketed on Wall Street and in Tokyo, as well as in London.

The goal of a global market place in equities still looks a good distance off. Enormous strides still need to be made in the harmonisation of accounting standards and dealing practices before the American fund manager invests in Toyota as cheerfully as General Motors.

Moreover, while equity research has become much more international in its emphasis over the past few years, few British chemicals analysts would claim to understand Hoechst or Du Pont as well as they do ICI.

Having said that, the global market place in equities no longer appears the pipe-dream which most would have seen it as only a few years ago.

By David Dodwell

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Hill Samuel Asset Management International Limited.

Profile; Wardley Investment Services.

## Making the most of a home advantage

"We ARE a big fish in a relatively small pond — and that brings clear advantages," said Nigel Tulloch, head of Wardley Investment Services, arguably Hong Kong's biggest fund manager.

For a start, it means that Wardley — which is part of the Hong Kong Bank Group — gets treated as a first among equals in Hong Kong, even when in a company of other major fund managers. With something in the region of U.S.\$3bn under management, it is used to getting personalised treatment in a market where every major UK stockbroker has 15 from the U.S. are represented.

Wardley likes to make a clear distinction between itself and other fund managers. Whereas the other majors in Hong Kong — Henderson, Barings, Citicorp, Fidelity, Jardine Fleming, for example — are overseas arms of companies based in Europe or the U.S. with the job of investing Western-originated funds in the Asian securities market, Wardley is the mirror image of them. Most of its funds are generated in Hong Kong — local retirement funds and pension funds — and its job is to invest these internationally.

Nigel Tulloch is coy about disclosing whose funds he manages on a discretionary basis. But clients are understood to include, for example, Cathay Pacific, many Government pension funds, Hong Kong Kowloon Wharf and Godown Company, and most of the local utility companies. Among its large pooled funds, the Farlingford-Swift Funding Scheme amounts to about U.S.\$250m, while the Hong Kong Bank's own Central Provident Fund amounts to about U.S.\$100m. He disclosed that of the 30 portfolios under management, 10 account for about 85 per cent of total funds.

Wardley's growth has coincided with a rapid growth in the number of retirement funds set up in Hong Kong. Historically, employers assumed no responsibility for such matters, partly because most companies were small family businesses. As companies have grown, so this has changed.

From a fund manager's point of view, this has made Hong Kong fertile ground. Economic growth averaging more than 6 per cent a year has led to a rapid expansion in the labour force, with the average age of

workers in the low 20s. This means that contributions are growing rapidly while funds are unlikely to have heavy demands made on them for many years to come.

This growth has sometimes proven a mixed blessing for a market leader like Wardley, since many companies have reached a size where they have sought second or third fund managers. When this happens, the new manager does not just get the incremental contribution, but will normally be given discretion to manage half of the total fund. This can leave Wardley managing less funds than when it was exclusive manager.

The company nevertheless controls about 50 per cent of the managed funds originating in Hong Kong, and according to Mr Tulloch, some funds under its management have been more than doubling every two years — which suggests it has not yet begun to pay a high price for its increase in competition.

While the great majority of Wardley's Discretionary Funds originate in Hong Kong (the rest come from high-net-worth businessmen making in the Philippines and Indonesia), only about 10 per cent is invested in the territory. By far the largest exposure is in the U.S., with Yen investments coming second. Mr Tulloch estimated that it would be unusual for less than 80 per cent of Wardley's funds to be invested in these markets. Continental Europe would account for about 15 per cent, and the UK about 5 per cent.

In recent years, returns have varied from a profit of 40 per cent to a 5 per cent loss. By all accounts, 1983 was an excellent year, with the Hong Kong dollar weak and the world's stock markets buoyant. Mr Tulloch noted discreetly that profits of 40 per cent "were not uncommon."

By contrast, 1984 is likely to be less exuberant as securities markets have sat in the doldrums, and the Hong Kong dollar has been swept upward because of its link to the U.S. unit.

As Wardley Investment Services has grown, so the need to seek funds from outside Hong Kong has grown. Japan remains difficult to penetrate, though an associate, Wardley Nikko Asian Securities, has been active since 1974. Singapore has also been a

closed book while the Government's Central Provident Fund (CPF) takes 50 per cent of a Singapore worker's salary at source. However, in recent months the Singapore government has unveiled plans to allow companies to put a proportion of their provident funds into the hands of private managers. Mr Tulloch said Wardley is seeking clarification.

Restrictions have only recently been lifted in Australia, but Wardley says business prospects have improved significantly over the past year, with good future prospects forecast.

Fund managers like Wardley peer longingly at the funds managed inside the U.S. Out of an estimated total market of

U.S.\$600bn, only 2½ per cent — about U.S.\$15bn — is managed outside the U.S.; "even a half per cent increase in U.S. funds managed by companies outside the U.S. would have a significant impact," Nigel Tulloch mused.

Until the recent past, Wardley has not had to think seriously about shifting its legal home. Hong Kong has been its prime source of funds, and has unequalled strengths as an international financial centre in the same time zone as Tokyo.

But as its international operations have grown, so a search for firmer bases elsewhere in the region has begun. It is now organic growth, the search for a new home may now be unnecessary.

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AMERICAN STOCK EXCHANGE COMPOSITE PRICES

Prices at 3pm, December 6

Main table of American stock exchange composite prices, organized by sector (A through Z) and listing individual stocks with their respective prices and changes.

Continued on Page 30

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

Main table of New York stock exchange composite prices, organized by sector (A through Z) and listing individual stocks with their respective prices and changes.

Notes and footnotes regarding the data, including a disclaimer: 'Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day...'.

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WORLD STOCK MARKETS

AUSTRIA

Table with columns: Dec. 6, Price, +/-, Stock names like Creditanstalt, Gessner, etc.

GERMANY

Table with columns: Dec. 6, Price, +/-, Stock names like AEG-Telef., Allianz, etc.

NORWAY

Table with columns: Dec. 6, Price, +/-, Stock names like Bergen Bank, Borggaard, etc.

AUSTRALIA (continued)

Table with columns: Dec. 6, Price, +/-, Stock names like Bank of NSW, Bank of Queensland, etc.

JAPAN (continued)

Table with columns: Dec. 6, Price, +/-, Stock names like Dai Nippon, Daiwa, etc.

OVER-THE-COUNTER

Table with columns: Stock, Price, +/-, various international stocks.

NASDAQ national market, 2.30pm prices

Table with columns: Stock, Price, +/-, NASDAQ listed stocks.

LONDON

Table with columns: Stock, Price, +/-, London stock market data.

Chief price changes

Table with columns: Stock, Price, +/-, summary of price changes.

BELGIUM/LUXEMBOURG

Table with columns: Dec. 6, Price, +/-, Stock names like B.S.I., Belg. Int. A. Lux., etc.

ITALY

Table with columns: Dec. 5, Price, +/-, Stock names like Banca Com. Ital., etc.

NETHERLANDS

Table with columns: Dec. 5, Price, +/-, Stock names like ADF Holding, etc.

FRANCE

Table with columns: Dec. 5, Price, +/-, Stock names like Emprunt 4 1/2%, etc.

NETHERLANDS (continued)

Table with columns: Dec. 5, Price, +/-, Stock names like ADF Holding, etc.

FRANCE (continued)

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NETHERLANDS (continued)

Table with columns: Dec. 5, Price, +/-, Stock names like ADF Holding, etc.

CANADA

Table with columns: Sales, Stock, High, Low, Close, Date, various Canadian stocks.

TORONTO

Table with columns: Sales, Stock, High, Low, Close, Date, Toronto stock market data.

AMERICAN STOCK EXCHANGE PRICES

Table with columns: 12 Month, High, Low, Close, Date, American stock market data.

MONTREAL

Table with columns: Sales, Stock, High, Low, Close, Date, Montreal stock market data.

AMERICAN STOCK EXCHANGE PRICES (continued)

Table with columns: 12 Month, High, Low, Close, Date, American stock market data.

AMERICAN STOCK EXCHANGE PRICES (continued)

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AMERICAN STOCK EXCHANGE PRICES (continued)

Table with columns: 12 Month, High, Low, Close, Date, American stock market data.

AMERICAN STOCK EXCHANGE PRICES (continued)

Table with columns: 12 Month, High, Low, Close, Date, American stock market data.

WORLD VALUE OF THE POUND every Tuesday in the Financial Times

Handwritten text at the bottom of the page.







FT LONDON SHARE INFORMATION SERVICE



Main table containing various stock market data including AMERICANS, BEERS, WINES, DRAPERY & STORES, ENGINEERING, INDUSTRIALS, CANADIANS, CHEMICALS, PLASTICS, BANKS, HP AND LEASING, INT. BANK AND O'SEAS GOVT STERLING ISSUES, CORPORATION LOANS, COMMONWEALTH AND AFRICAN LOANS, LOANS, Public Board and Ind., Financial, FOREIGN BONDS & RAILS, BUILDING INDUSTRY, TIMBER AND ROADS, ELECTRICALS, FOOD, GROCERIES, ETC., HOTELS AND CATERERS.

BRITISH FUNDS table with columns for Stock, Price, Div, Yield, and various fund names.

Five to Fifteen Years table with columns for Stock, Price, Div, Yield, and various fund names.

Over Fifteen Years table with columns for Stock, Price, Div, Yield, and various fund names.

Undated table with columns for Stock, Price, Div, Yield, and various fund names.

Index-Linked table with columns for Stock, Price, Div, Yield, and various fund names.

Financial table with columns for Stock, Price, Div, Yield, and various fund names.

AMERICANS table listing various American stocks and their prices.

BEERS, WINES—Cont. table listing beer and wine stocks.

DRAPERY & STORES—Cont. table listing drapery and store stocks.

ENGINEERING—Continued table listing engineering stocks.

INDUSTRIALS (Miscel.) table listing various industrial stocks.

CANADIANS table listing Canadian stocks.

BUILDING INDUSTRY, TIMBER AND ROADS table listing building and timber stocks.

ELECTRICALS table listing electrical stocks.

CHEMICALS, PLASTICS table listing chemical and plastic stocks.

BANKS, HP AND LEASING table listing bank and leasing stocks.

INT. BANK AND O'SEAS GOVT STERLING ISSUES table listing international bank and government issues.

CORPORATION LOANS table listing corporation loans.

COMMONWEALTH AND AFRICAN LOANS table listing commonwealth and African loans.

LOANS table listing various loans.

Public Board and Ind. table listing public board and industrial stocks.

Financial table listing financial stocks.

FOREIGN BONDS & RAILS table listing foreign bonds and rails.

BEERS, WINES AND SPIRITS table listing beer, wine, and spirit stocks.

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Vertical text on the right edge of the page, possibly a page number or reference.



Financial Times Friday December 7 1984

INDUSTRIALS—Continued

Table of industrial stock prices including companies like British Petroleum, Shell, and ICI.

LEISURE—Continued

Table of leisure stock prices including companies like British Airways and British Telecom.

PROPERTY—Continued

Table of property stock prices including companies like British Land and National Westminster.

INVESTMENT TRUSTS—Cont.

Table of investment trust stock prices including various funds like Fidelity and Guinness.

OIL AND GAS—Continued

Table of oil and gas stock prices including companies like BP and Shell.

MOTORS, AIRCRAFT TRADES

Table of motor and aircraft trade stock prices including companies like Jaguar and Rolls-Royce.

NEWSPAPERS, PUBLISHERS

Table of newspaper and publisher stock prices including companies like News International and Newsprint.

PAPER, PRINTING ADVERTISING

Table of paper, printing, and advertising stock prices including companies like Newsprint and WPP.

SHOES AND LEATHER

Table of shoes and leather stock prices including companies like Debenhams and Debenhams Group.

SOUTH AFRICANS

Table of South African stock prices including companies like Anglo American and Anglo Coal.

TEXTILES

Table of textile stock prices including companies like J. & F. S. and J. & F. S. Textiles.

TOBACCO

Table of tobacco stock prices including companies like British American Tobacco and J. & F. S. Tobacco.

TRUSTS, FINANCE, LAND

Table of trusts, finance, and land stock prices including companies like Guinness and Anglo Irish Bank.

INSURANCES

Table of insurance stock prices including companies like Prudential and Royal Indemnity.

PLANTATIONS

Table of plantation stock prices including companies like Guthrie & Co. and Guthrie & Co. Plantations.

OVERSEAS TRADERS

Table of overseas trader stock prices including companies like Anglo Siam and Anglo Siam Traders.

FINANCE, LAND, ETC.

Table of finance, land, and other stock prices including companies like Anglo Irish Bank and Anglo Irish Finance.

MINES—Continued

Table of mine stock prices including companies like Anglo American and Anglo Coal.

DAIWA BANK logo and contact information for a fully integrated banking service.

MINES—Continued

Table of mine stock prices including companies like Anglo American and Anglo Coal.

NOTES

Notes section containing various financial notices and announcements.

PLANTATIONS

Table of plantation stock prices including companies like Guthrie & Co. and Guthrie & Co. Plantations.

OVERSEAS TRADERS

Table of overseas trader stock prices including companies like Anglo Siam and Anglo Siam Traders.

FINANCE, LAND, ETC.

Table of finance, land, and other stock prices including companies like Anglo Irish Bank and Anglo Irish Finance.

MINES

Table of mine stock prices including companies like Anglo American and Anglo Coal.

Regional and Irish stocks section with a list of companies and their prices.



AUTHORISED UNIT TRUSTS

Table listing various unit trusts such as Abbey Unit Trst, Allport Unit Trst, and others, with columns for name, manager, and performance metrics.

Table listing unit trusts under the heading 'FT UNIT TRUST INFORMATION SERVICE', including names like Britannia Group, British Shipley & Co., and others.

FT UNIT TRUST INFORMATION SERVICE

Main table of unit trusts with columns for name, manager, and performance. Includes sections for 'Key Fund Managers Ltd', 'Perpetual Unit Trusts', and 'Trustee Unit Trust Managers'.

Financial Times Friday December 7 1984

Table listing various insurance and financial services, including 'General Periodic Life Ins. PLC', 'City of Westminster Assurance', and 'British National Life Assurance Co. Ltd'.

F.T. CROSSWORD PUZZLE No. 5589

CROSSWORD PUZZLE No. 5589
ACROSS
1 Now holding a spanner that's reduced in length (8)
The fool, having money returned, starts wasting it (6)
Around mid-day switches streets (5)
Trust Rose to be taken by a prediction (9)
Plan a series of performances (9)
Fitting the apparatus with one kind of cable (5)
Tease lad about being coarse (6)
Catheters it may mean a court appearance (7)
Falling behind with pipe-work (7)
Back at home in an effort to consume large quantities (6)
You are heard returning with doctor before a dance (8)
Post office (9)
Insect found in Black Rock Ravine (5)
Comes to game after I get double (5)
Being deprived of pine, is brought back in (8)
Dirty tart staggers into bed (8)
DOWN
1 Disconnected broken bar put clumsily underneath (6)
2 In rage, perhaps, about boy arguing (9)
3 "Organist" I said "brought about such disorder" (13)
4 Brought up the unknown smell in a rising river! (7)
5 He plays in the street with

Crossword puzzle grid with numbers 1-28 indicating starting positions for the clues.

17 Irritates a French city (6)
21 May start with cards (clubs) (5)
Solution to Puzzle No. 5588
B A S I C A L L Y
A C C O U N T A N T
C O M P A N Y
D I R E C T O R
E X E C U T I V E
F I N A N C I A L
G E N E R A L
H O U S E
I N T E R N A T I O N A L
J O B
K E E P E R
L E T T E R
M A N A G E R
N E E D
O F F I C E
P A R T N E R
R E C E I V E R
S E C R E T A R Y
T E A M
U N I T
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M A N A G E R
N E E D
O F F I C E
P A R T N E R
R E C E I V E R
S E C R E T A R Y
T E A M
U N I T
V I C E
W O R K
X P E R T
Y O U N G
Z E R O



INSURANCE, OVERSEAS & MONEY FUNDS

Table of insurance and overseas funds including Liberty Life Assurance Co Ltd, National Provident Institution, and various international investment funds.

Table of insurance and overseas funds including Sun Life of Canada, Swiss Life, and various international investment funds.

Table of insurance and overseas funds including Sun Life of Canada, Swiss Life, and various international investment funds.

Table of money market and bank accounts including Midland Bank, Sun Life of Canada, and various international investment funds.

OFFSHORE AND OVERSEAS

Table of offshore and overseas funds including Sun Life of Canada, Swiss Life, and various international investment funds.

Money Market

Table of money market data including various bank rates and interest rates.

Trust Funds

Table of trust funds including various investment trusts and their performance.

Bank Accounts

Table of bank accounts including various international banks and their services.



# COMMODITIES AND AGRICULTURE

## Overcapacity in feed nears 25%

By Andrew Gowers

THE ANIMAL feed industry has excess capacity totalling between 2.5m and 3m tonnes, about a quarter of the total. Britain's leading feed compounder said yesterday.

Mr Allan Price, chairman of BOCM Silcock, Unilever's agricultural subsidiary, said in London that the industry's excess capacity is a result of EEC milk production quotas which have cut the feed market by 1m tonnes.

He said: "You cannot take 1m tonnes out of the market without having some adjustment to the supply and demand situation. Many compounders are now in the throes of painful adaptation to the new smaller, even more competitive, market."

BOCM has already announced the removal of 120,000 tonnes of capacity with the closure of its Avonmouth and Avoncroft feed mills and the construction of a streamlined plant in the Avon area. This reorganisation will lead to 140 job losses.

However, Mr Price's remarks

are a clear indication that more of the industry's production capacity will have to go. Total output of compounds last year was just over 11m tonnes, 37 per cent of which went to feed dairy cows. The total market size is estimated at between 9m and 10m tonnes.

Large feed companies such as BOCM are suggesting that the small regional compounders—particularly in the west of England and Wales, where dairying is concentrated—may bear the brunt of capacity reduction. There is speculation that some of them may seek to merge with national companies.

But BOCM's immediate farmers to boost production in priority is to encourage dairy order to meet Britain's national quota. Both the Milk Marketing Board and more quietly the Agriculture Ministry are exhorting milk producers to increase output, as the country is more than 3 percentage points below quota.

## Decision deferred on gold futures

By John Edwards, Commodities Editor

MOST member companies want the London Gold Futures Market to continue trading in some form. But they are undecided how this should be achieved.

That was the verdict of a special meeting of members held at the Great Eastern Hotel, London, yesterday morning.

The meeting, which lasted 1 1/2 hours, was eventually adjourned until January to give time for the board of directors to discuss the views expressed and to put forward some definite proposals.

No formal vote was taken. However, it is understood that in a show of hands, 13 of the 50 "floor" and associate member companies represented (out of 54 eligible to attend) favoured closing the market and 22 that

it should continue. However, no consensus was reached on the various moves suggested to put new life into the market, where turnover has fallen to such a low level that its whole future is threatened.

Several options were mentioned. Possible mergers with the London International Financial Futures Exchange; the London Metal Exchange; the London Commodity Exchange or Inter, the Bermuda based fully automated futures exchange were suggested.

The main preoccupation was in retaining the "black box" arrangement for Value Added Tax under the special scheme that allows exemption and zero rating for members of the gold futures market.

## Warning on cheese price

By Our Commodities Staff

CHEESE PRICES in Britain will rise further in the New Year as a result of increasing manufacturing costs and limits on output caused by EEC milk quotas, Dairy Crest, the Milk Marketing Board's commercial subsidiary, warned yesterday.

Mr Paul Pegden Smith, its cheese group director, said that cheddar prices, the industry yardstick, would inevitably rise £100 a tonne. Cheddar manufacturers' stocks were at a five-year low of just over 61,000 tonnes.

Dairy Crest said cheese consumption rose 1 per cent in the year to June, with a marked shift towards soft cheese.

The mind boggles when you add up the massed armies of embryonic economists pouring in from our various institutions of learning, because I understand it is one of the most popular subjects today.

My knowledge of economics is of course pretty basic. If I produce one sheep, a ton of corn, or a gallon of milk more than the customer wants to buy or can pay for then the price falls, and the price falls far more than the actual figure of oversupply justifies. Of course the same retribution awaits the manufacturer who does not get the market right.

The conventional economist

## Time for a new economic theory

By John Cherrington

A COUPLE of years ago I was asked to speak to the joint sixth forms of two well-known public schools. The subject naturally enough was the Common Agricultural Policy.

My views were accepted without too much argument one way or another, except that one or two farmers' sons did not like my forecast, which has since proved correct, of restrictions on production.

What really astounded me was that most of these intelligent young men and women were studying economics as a level 3 subject, and many of them, I gathered, hoped to make their future careers in some branch of that science.

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The conventional economist

claims that this is all to the good and that it sharpens the wits of the producers and makes them efficient operators in a market economy. It is a pity, they say, that government protects their inefficient producers with such things as the Common Agricultural Policy and any other hindrance to the free movement of goods and services.

I disagree profoundly and for these reasons.

During the early 1930s farmers in Britain, the U.S., and the Commonwealth were in a depressed state because when they tried to sell their output markets were almost non-existent.

This is wrong. There were, even in those days, lots of people suffering malnutrition, some actually starving because they could not afford to buy food. There was of course no television then to bring the starving into every sitting room.

Solutions

There had of course been hunger and starvation all through history and shortages of other goods but by the end of the 1920s the physical limits to production had been overcome. The problem then, as now, was to get the distribution right.

There are of course some solutions. In 1931 it was working on a large ranch in Argentina, and the company's auditor pointed out that the sheep flock never showed any increase where it should have done.

I explained that most of them were stolen by the local villagers, many of whom were out of work and had no social security at all. It was better, I told him, to lose a few sheep worth about 25p a head at that time than the more valuable cattle and crops.

I did not add that I had no intention of risking my own life on the chance that one of the thieves trying to prevent it happening.

Mountains

Roughly the same principles apply today. The enormous sums owed by certain developing countries—which are uncertain of ever being paid and were probably never intended to be paid by the recipients—are simply the modern equivalent of my sheep stealers' booty.

Ah, you will say. "There always have been thieves of one sort and another." True enough. But it is only since the third decade of the 20th century that production of food

and everything else necessary to mankind is available and in surplus.

There were mountains of grain, meat and everything else in the 1930s just as there are today. We have still not learned how to distribute them to those who really need them.

There must be a solution other than restrictions, the ruling back of production, which has been the fashion up until now. But this was no more than the human version of the economists' law of supply and demand which worked fairly well in the days of general scarcity but is no longer good enough today.

Unfortunately, although there are many who see the faults of our present system, most governments are in the thrall of the orthodox economists who can see no alternative to conventional economic theory.

I am sure I said something of this sort to those young people as an aside to my prepared text. But would it be too much to hope that among the thousands graduating in economic disciplines there are a few who are prepared to look for another way of conducting the affairs of man and solving the problems of distribution—the economics of plenty and not scarcity?

## N. Zealand in further barter deal with Iran

By Dai Hayward

NEW ZEALAND has signed a barter deal with Iran. The deal worth about NZ\$300m (£121m) will see 100,000 tonnes of lamb go to Iran in return for 6m barrels of oil.

However, New Zealand will not receive the oil direct. It will be sold through an oil broker in Europe or Japan. The proceeds will go into a special bank account and the New Zealand lamb is shipped to Iran payments will be made from the proceeds of the oil sales.

This is similar to a 1982 oil for lamb deal with Iran. On that occasion, Iran had some difficulty fulfilling the oil part of the contract and payments for the lamb were slow. At one stage the New Zealand Meat Board stopped the sailing of a fully laden meat ship for five weeks until an overdue payment had been received.

The NZ Meat Board does not believe there will be any problems over the new contract. All the details for the lamb side of the deal have been concluded and signed by the Iranian Meat Organisation, the General Trading Company and the National Trading Organisation, a company which will link the meat to the oil sale.

However, final details of how the oil will be sold and the choice of the international oil operator through which it will pass have still to be finalised. Slaughtering of lamb according to Muslim religious rites will begin before Christmas and the first shipments will leave for Iran in early January. Ships will sail every week until September, discharging the lamb at the Gulf port of Bandar Abbas.

Iran is a vital market for New Zealand lamb, taking about a third of the total production. The meat is sold in 1,000kg lots before falling back to 56,239 tons last month.

NDIA will invest Rs 1,570m (£105m) in the five years from 1985 to 1989 to plant coffee on 50,000 hectares. The Commerce Ministry said.

## Wrong oil price forecasts 'led to expensive errors'

By Nancy Dunne in Washington

INACCURATE FORECASTS of oil prices in the early part of this decade led to one of the most expensive business errors ever made, a report published yesterday.

About \$500bn (£414bn) was invested around the world in 1980 and 1981 on the assumption that oil prices would continue to rise throughout the rest of the century. Cambridge Energy Research Associates said in its report The Future of Oil Prices: The Perils of Prophecy.

Since the early 1970s consensus has been the norm in oil price predictions, the report says—and in each case the consensus has been wrong.

Mr Daniel Yergin, president

of Cera, warns in his introduction to the study: "After 15 years of turbulence, it is clear that the impact of unpredictable factors is so great that oil prices cannot be accurately predicted."

The study warns that current expectations for oil prices could be undercut by new forces at work in energy and oil demands, a basic structural revolution in the oil industry and geopolitics.

In the early 1970s a few institutions, primarily large oil companies and a few banks, did long term oil forecasts. Today several agencies and companies have turned to forecasting but the basic work is still done by a small number of companies and institutions.

These forecasters make up a "community," the report notes, in which there is a continuing exchange of information. These exchanges, along with a commonality of methods and assumptions, contribute to a consensus in viewpoints.

It says: "Forecasters who stray from the consensus have more difficulty persuading senior management of the credibility of their work than those who stay within it."

The report concludes: "The perils of prophecy are already evident to the current troubles of oil and oil services industries, in the growing number of non performing loans

in North America... and in the mountain debt of oil exporting countries."

Mr Michael Bowers, International Petroleum Exchange chief executive, commenting on the report, said: "Continuing uncertainty about Opec's ability to maintain the price of oil at its chosen level has highlighted the economic advantages offered by our gas oil futures contract as an oil price hedge."

Between July and October IPE turnover rose from 41,674 lots (100 tonnes each) to 84,221 lots before falling back to 56,239 lots last month.

## LONDON MARKETS

BASE METALS prices on the London Metal Exchange moved higher yesterday with the biggest advance being registered in nickel. Cash nickel moved up to \$85,067.50 a tonne taking the rise on the week so far to \$145 a tonne. Dealers attributed the rise to deepening fears about a squeeze on supply available for nearby delivery. W/cta was also affected in the elimination of the cash discount against three months metal, which yesterday stood at \$44 a tonne. Unrest which has hit production in New Caledonia was a further bullish factor.

The aluminium market was also strong with the cash quotation gaining \$17.25 to \$941 a tonne. Dealers put this rise down to covering against short positions and forecasts that next Monday's International Primary Aluminium Institute figures would show a smaller rise in world stocks than recently.

	Dec 6 1984	+ or -	Month ago
<b>METALS</b>			
Aluminium	\$1100	+	\$1082.5
Free Mkt	\$1175-1200	+	\$1175-1200
Copper			
Cash	\$1096.5	+1.0	\$1082.5
Three months	\$1134.5	+2.5	\$1107.5
Gold tray	\$350.4	-0.35	\$347.5
Lead cash	\$237.6	+1.8	\$235.8
Three months	\$234.25	+1.5	\$232.75
Nickel	\$850.67	+8.8	\$841.87
Free Mkt	\$850.67	+8.8	\$841.87
Palladium	\$140.0	+0.30	\$139.7
Platinum	\$820.0	-0.25	\$819.75
Quick Silver	\$209.38	+	\$209.4
Silver tray	\$67.85	+0.7	\$67.15
Free Mkt	\$67.85	+0.7	\$67.15
Tin cash	\$2657.5	+1.0	\$2656.5
Three months	\$2657.5	+1.0	\$2656.5
Tungsten	\$86.50	+3.16	\$83.34
Williams 22 1/2	\$747.75	-1.0	\$748.75
Iron	\$55.1	+0.5	\$54.6
Producers	\$90	+	\$89.5

	Dec 5 1984	+ or -	Month ago
<b>FINANCIAL TIMES</b>			
Dec 5 1984	299.90		299.90
Dec 5 1984	299.90		299.90
<b>REUTERS</b>			
Dec 5 1984	1980.4		1980.4
Dec 5 1984	1980.4		1980.4
<b>MOODY'S</b>			
Dec 5 1984	990.0		990.0
Dec 5 1984	990.0		990.0
<b>DOW JONES</b>			
Dec 5 1984	1254.00		1254.00
Dec 5 1984	1254.00		1254.00

	Dec 5 1984	+ or -	Month ago
<b>INDICES</b>			
Dec 5 1984	299.90		299.90
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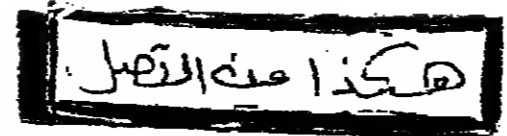
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Dec 5 1984	1980.4		1980.4
Dec 5 1984	1980.4		1980.4
<b>MOODY'S</b>			
Dec 5 1984	990.0		990.0
Dec 5 1984	990.0		990.0
<b>DOW JONES</b>			
Dec 5 1984	1254.00		1254.00
Dec 5 1984	1254.00		1254.00

	Dec 5 1984	+ or -	Month ago
<b>INDICES</b>			
Dec 5 1984	299.90		299.90
Dec 5 1984	299.90		299.90
<b>REUTERS</b>			
Dec 5 1984	1980.4		1980.4
Dec 5 1984	1980.4		1980.4
<b>MOODY'S</b>			
Dec 5 1984	990.0		990.0
Dec 5 1984	990.0		990.0
<b>DOW JONES</b>			
Dec 5 1984	1254.00		1254.00
Dec 5 1984	1254.00		1254.00

	Dec 5 1984	+ or -	Month ago
<b>INDICES</b>			
Dec 5 1984	299.90		299.90
Dec 5 1984	299.90		299.90
<b>REUTERS</b>			
Dec 5 1984	1980.4		1980.4
Dec 5 1984	1980.4		1980.4
<b>MOODY'S</b>			
Dec 5 1984	990.0		990.0
Dec 5 1984	990.0		990.0
<b>DOW JONES</b>			
Dec 5 1984	1254.00		1254.00
Dec 5 1984	1254.00		1254.00

	Dec 5 1984	+ or -	Month ago
<b>INDICES</b>			
Dec 5 1984	299.90		299.90
Dec 5 1984	299.90		299.90
<b>REUTERS</b>			
Dec 5 1984	1980.4		1980.4
Dec 5 1984	1980.4		1980.4
<b>MOODY'S</b>			
Dec 5 1984	990.0		990.0
Dec 5 1984	990.0	</	





CURRENCIES, MONEY and CAPITAL MARKETS

FOREIGN EXCHANGES

Bundesbank adds to \$ disarray

The dollar moved erratically in currency markets yesterday, reflecting a low trading volume and integration by the Bundesbank. The latter was active from time to time, taking advantage of the thin trading to push the dollar weaker.

Despite the fact that there is still more than two full trading weeks before Christmas, many commercial banks are already squaring off their books, prompting one dealer to describe yesterday's dollar/D-mark market as being something of a circus.

On Bank of England figures, the dollar's trade-weighted index was 162.5 from 162.4. Which many people remaining on the sidelines, there appeared to be little attention paid to fundamentals likely to affect the market.

FINANCIAL FUTURES

Prices weaken

Prices weakened on the London International Financial Futures Exchange yesterday. There was considerable confusion and uncertainty about the direction of the U.S. dollar in the near future and about the likely direction of interest rates.

Three-month sterling deposits were very dull, with December delivery opening and closing unchanged on the day at 90.24.

STERLING EXCHANGE RATE INDEX

Table with columns: Dec 6, Previous, 8.30 am, 9.00 am, 10.00 am, 11.00 am, Noon, 1.00 pm, 2.00 pm, 3.00 pm, 4.00 pm. Values range from 74.8 to 74.7.

EMS EUROPEAN CURRENCY UNIT RATES

Table with columns: Country, Currency, % change, % change adjusted for divergence, Divergence limit. Includes Belgium, France, Germany, Italy, Netherlands, Spain, UK, Greece, Portugal, Ireland, Luxembourg, Austria, Denmark, Sweden, Norway, Finland, Switzerland, Japan, Korea, Taiwan, Singapore, Hong Kong, New Zealand, Australia, Canada, Mexico, Brazil, Chile, Argentina, Peru, Colombia, Venezuela, Ecuador, Uruguay, Paraguay, Cuba, Haiti, Dominican Republic, Bahamas, Barbados, Guyana, Suriname, Guyana, Suriname, Guyana, Suriname.

OTHER CURRENCIES

Table with columns: Dec 6, 1984, 1983, 1982, 1981, 1980, 1979, 1978, 1977, 1976, 1975, 1974, 1973, 1972, 1971, 1970, 1969, 1968, 1967, 1966, 1965, 1964, 1963, 1962, 1961, 1960, 1959, 1958, 1957, 1956, 1955, 1954, 1953, 1952, 1951, 1950, 1949, 1948, 1947, 1946, 1945, 1944, 1943, 1942, 1941, 1940, 1939, 1938, 1937, 1936, 1935, 1934, 1933, 1932, 1931, 1930, 1929, 1928, 1927, 1926, 1925, 1924, 1923, 1922, 1921, 1920, 1919, 1918, 1917, 1916, 1915, 1914, 1913, 1912, 1911, 1910, 1909, 1908, 1907, 1906, 1905, 1904, 1903, 1902, 1901, 1900, 1899, 1898, 1897, 1896, 1895, 1894, 1893, 1892, 1891, 1890, 1889, 1888, 1887, 1886, 1885, 1884, 1883, 1882, 1881, 1880, 1879, 1878, 1877, 1876, 1875, 1874, 1873, 1872, 1871, 1870, 1869, 1868, 1867, 1866, 1865, 1864, 1863, 1862, 1861, 1860, 1859, 1858, 1857, 1856, 1855, 1854, 1853, 1852, 1851, 1850, 1849, 1848, 1847, 1846, 1845, 1844, 1843, 1842, 1841, 1840, 1839, 1838, 1837, 1836, 1835, 1834, 1833, 1832, 1831, 1830, 1829, 1828, 1827, 1826, 1825, 1824, 1823, 1822, 1821, 1820, 1819, 1818, 1817, 1816, 1815, 1814, 1813, 1812, 1811, 1810, 1809, 1808, 1807, 1806, 1805, 1804, 1803, 1802, 1801, 1800, 1799, 1798, 1797, 1796, 1795, 1794, 1793, 1792, 1791, 1790, 1789, 1788, 1787, 1786, 1785, 1784, 1783, 1782, 1781, 1780, 1779, 1778, 1777, 1776, 1775, 1774, 1773, 1772, 1771, 1770, 1769, 1768, 1767, 1766, 1765, 1764, 1763, 1762, 1761, 1760, 1759, 1758, 1757, 1756, 1755, 1754, 1753, 1752, 1751, 1750, 1749, 1748, 1747, 1746, 1745, 1744, 1743, 1742, 1741, 1740, 1739, 1738, 1737, 1736, 1735, 1734, 1733, 1732, 1731, 1730, 1729, 1728, 1727, 1726, 1725, 1724, 1723, 1722, 1721, 1720, 1719, 1718, 1717, 1716, 1715, 1714, 1713, 1712, 1711, 1710, 1709, 1708, 1707, 1706, 1705, 1704, 1703, 1702, 1701, 1700, 1699, 1698, 1697, 1696, 1695, 1694, 1693, 1692, 1691, 1690, 1689, 1688, 1687, 1686, 1685, 1684, 1683, 1682, 1681, 1680, 1679, 1678, 1677, 1676, 1675, 1674, 1673, 1672, 1671, 1670, 1669, 1668, 1667, 1666, 1665, 1664, 1663, 1662, 1661, 1660, 1659, 1658, 1657, 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